

Natural Gas in the Context of EU - Russia Relations

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**“South Stream: The Evolution of a
Pipeline”**

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MAJOR CHALLENGE: DIFFERENT APPROACHES TO ENERGY SECURITY AND ENERGY TRADE

- Competitiveness, climate change and **security of supply** are three major points of EU energy triangle. These are seen differently by “suppliers”.
- **Central divide in approaching energy security is focused on ‘rent sharing’**. This division illustrates a contradiction between models resulting in the application of different resource management, pricing and regulation frameworks.
- **The debate on “rent sharing” influences the discussions on the access to (respectively) upstream/downstream, pricing and regulations!!!**

Buyers vs. Sellers?

“Security of Supply”

- Affordable market based energy prices.
- Unrestricted access to natural resources.
- Tendency to see energy as a normal good.
- Liberal market values?

“Security of Demand”

- Sovereignty over natural resources.
- Energy is seen as a “common good”. Energy/infrastructure as a part of the national development imperative.
- Protectionism?
Community values.

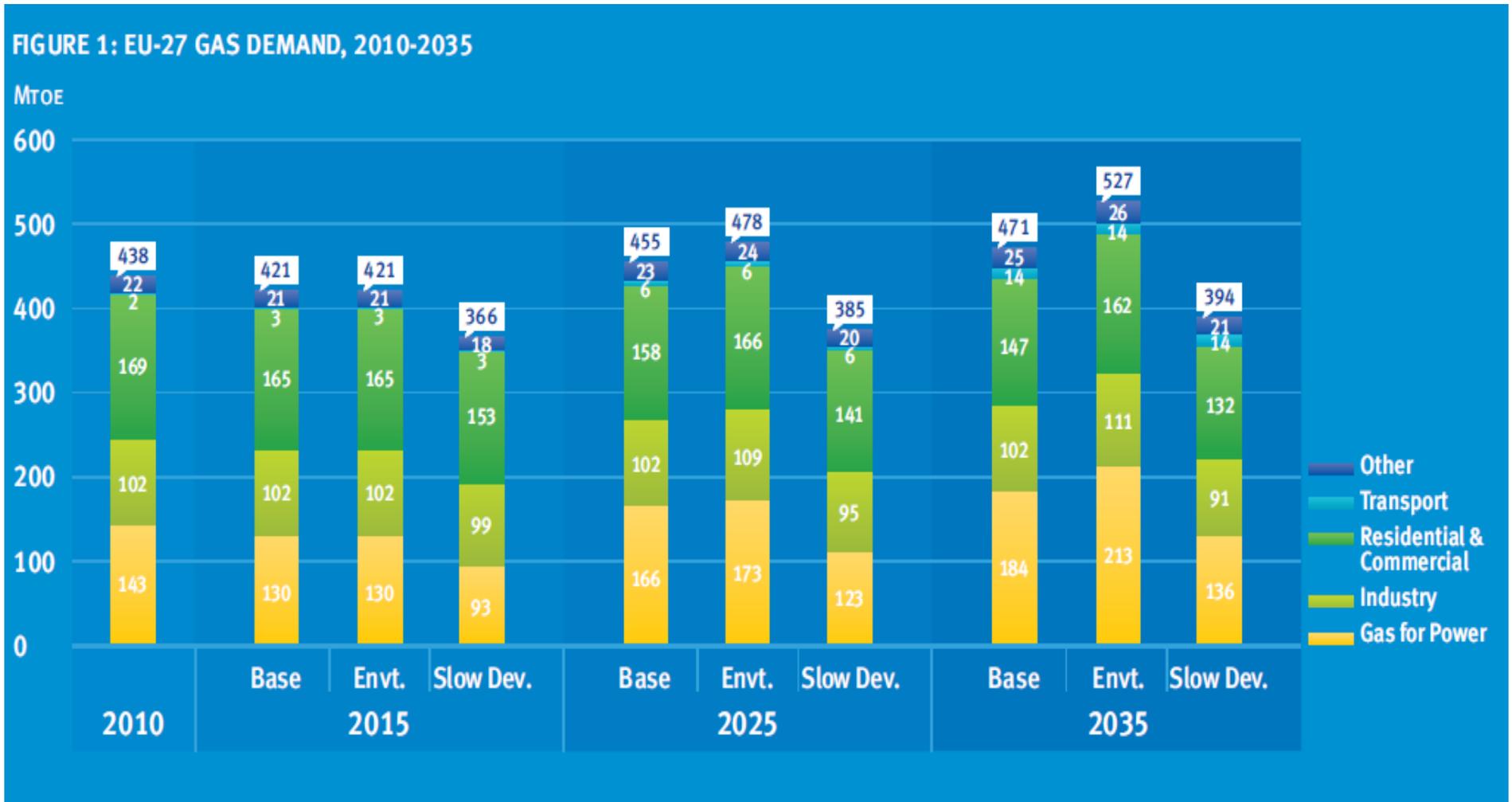
Recent Changes: From Sellers' to Buyers' Market, but for How Long?

- “Oil/gas peak” (resource scarcity) becomes less relevant.
- “Gas glut” (due to the economic crisis and new suppliers), unconventional, and new discoveries allow buyers' to (temporarily?) increase their bargaining power.
- The EU becomes active on the “energy front” putting pressure on the exporters. Norway accepted the new rules of the game (e.g. EEA Agreement of 1994, switch to spot, etc.) Would others accept the new rules of the game (e.g. 3rd package)? Europe is also (economically) challenged both by the U.S. and China.

RUSSIAN APPROACH: PRESENT AND FUTURE

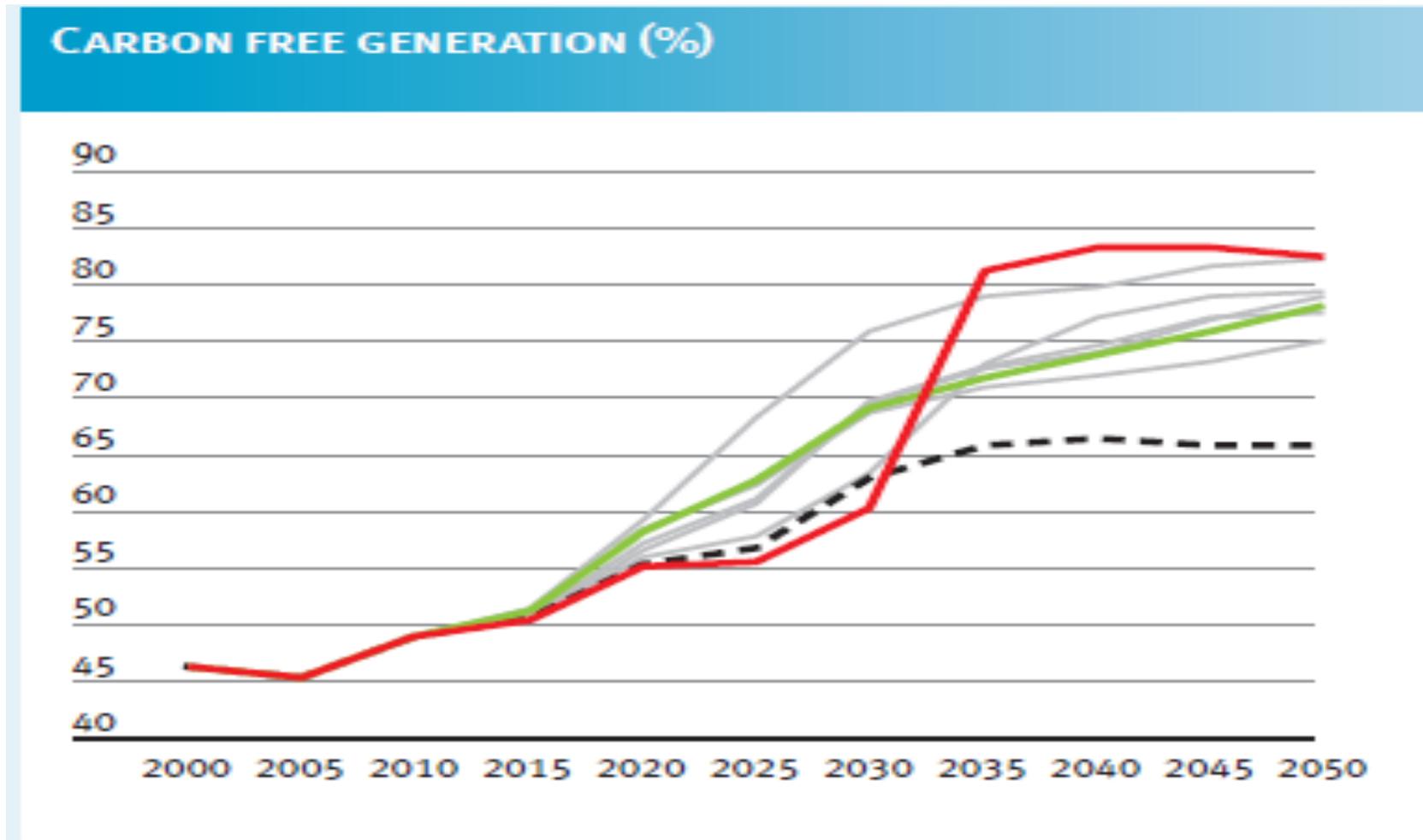
- The principle of unconditional state sovereignty over natural resources and the decision making process / liberalized access for few private sector players. State control of the energy sector becomes more sophisticated and more dependent on the price level.
- An ‘indivisible’ global energy security. National energy policies that impact regional and global energy security must be coordinated with all relevant actors.
- Efficiency, RES and modernization are important but hydrocarbons are set to remain relevant.
- Equal access to energy markets, technologies and investment in exchange for assets and investments.

FUTURE OF THE NATURAL GAS IN THE EU IS UNCLEAR



(C) Table 1 EUROGAS Long-Term Outlook for Gas to 2035.

Carbon free generation in the EU (%)



(C) Eurelectric, *Power Choices Reloaded: Europe's Lost Decade?*
May 2013.



RUSSIA'S CHOICE: GAS TRANSIT, VERTICAL INTEGRATION AND 3rd ENERGY PACKAGE

- The Nord Stream/South Stream projects – avoiding transit at all costs and ‘connection tool’ with Gazprom’s foreign clients?
- How to keep vertical integration and protect long-term supply and transportation contracts?
- Getting access to downstream?
- Gazprom’s ownership unbundling problems in Europe.
- Looking East or ‘staying’ with Europe?

South Stream: Quest for New Markets?



Re- positioning of Russian Gas in Europe

- “Russian” gas is under heavy criticism in Europe (pricing, LT contracts, Gazprom’s monopoly).
- Impact of new supplies (LNG, indigenous supply, Southern Corridor).
- Russian gas to remain at core of Europe’s energy mix.
- “Russian” gas needs to re-invent itself and reach new customers in Europe.



THANK YOU!

Q & A