CIEP

Clingendael International Energy Programme

Geopolitical challenges of European energy policy

On cohesion, crisis and creativity

Common Foreign Economic Relations - Energy & Climate Policy - Market Performance & Security

Christof van Agt

Board OG21
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A Challenging Overview

North Sea energy sector practice, a model for : EU-Russia, Eastern- Partnership, Artic & Caspian Dimensions, Turkey, Middle-East China, India, Africa...

EU process

<ins>Focus: in or outward?</ins>

- Internal towards external market dynamics:
  Market deepening and/or shift towards outreach (but not enlargement)

<ins>Concern: market structure & energy mix</ins>

- Not oil but gas import dependency (markets and cartels; then and now)
  Renewable to the rescue (20/20/20 goals) or nuclear and coal revisited?

<ins>Scene setters: sustainable growth</ins>

- Market Performance, Geopolitical Security, Climate Change
  (Carbon, Credit Crisis, Conflicts and the road to ... Copenhagen)

EU Process

Geopolitical challenges of European energy policy; internal aspects

The common position triangle
Three ways to share responsibility and accommodate challenges...

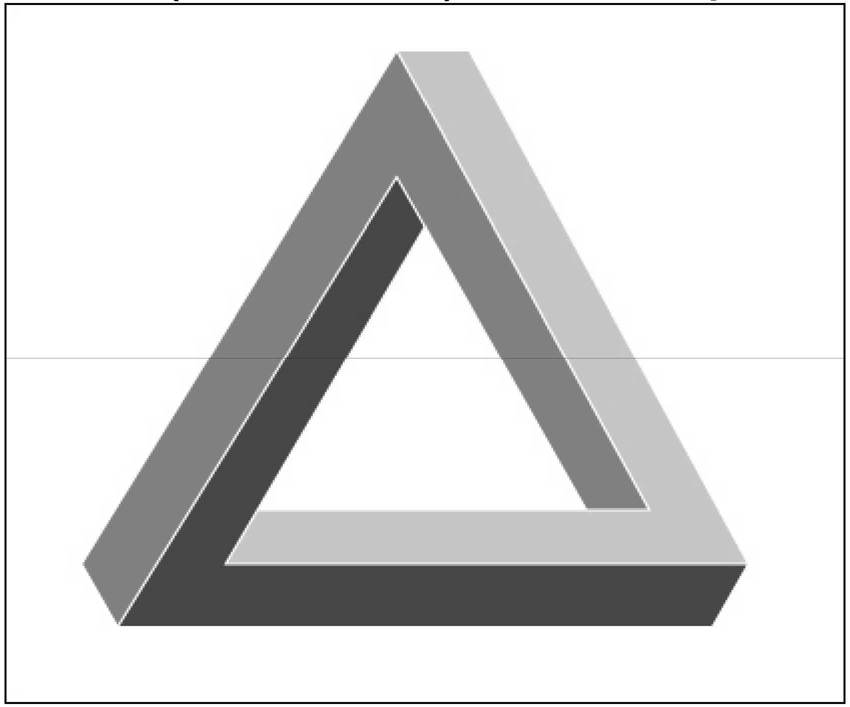
‘Subsidiarity’

Multilateral Instruments (WTO, ECT) & EU ‘Acquis Communautaire’

Sovereignty

Member State

Bilateral



Solidarity

Member State

Regional

‘single voice’ & ‘soft power’

Recent EU Process

Two steps forward one step back

- 3rd internal energy market legislative package (complete internal energy market facilitate cross border infrastructure investment)
- 2nd Strategic energy review (priorities on gas: Southern Corridors, LNG, Medring, North-South connectivity)
- Van Aartsen report on the natural gas connection with Caspian Sea countries and the Middle East

  (Nabucco – 'Caspian Development Corporation' Concept CDC)
- EU Council Eastern Partnership, Nabucco summitry 7&8 May 2009
- Eastern Partnership DCFTA's including energy…. CDC?
- Partnership Cooperation Agreement with Russia

The importance of being constant

‘Innovative thinking’ CDC

“...mechanism to be explored in full recognition of EU rules...
New generation of energy interdependence provisions...” *(com 2008 781)*

- The ‘missing link’ in EU energy security to be overcome by a mechanism for co-ordinated gas purchasing
- Catalyse gas production and infrastructure development (not involved in production)
- Focus beyond Azerbaijan on Central Asia and Middle East (plus independent Russian gas producers)
- Present EU gas consumption as a ‘single buyer’ in long-term credit worthy take or pay contract (50 years plus possible phase out)
- To overcome negotiation burden with several, and underpin massive upstream investment needs
- Optionality, non-discrimination, transparency , accountability etc
- To be explored and defined

From market failure to market intervention?

EU External relations

Geopolitical challenges of European energy policy; external aspects

Euro Atlantic-Asian Pacific relations and ‘Eurasia’

Past & new Russian Initiatives

International law, legal nihilism , policy turns

Past:

Energy Charter Nuclear Protocol
Energy Charter CIS Electricity Protocol
Energy Charter Major Accidents Protocol

New (‘rebus sic stantibus’ situation change?):

Energy Security Treaty to replace Energy Charter Treaty
Transit Emergency situations
Code on International Nuclear Law

Outstanding(good faith):

WTO, OECD , membership –role within G8?
Energy Charter Treaty, Provisional application pending ratification (Yukos)?
Energy Charter Transit Protocol, Adoption (Caspian Central Asia Gazprom)?

A sense of belonging or desire to take exemption?

Key issues for European Union relations with Partners

Russia:

Asymmetric market and policy development ('good faith' at issue?)

Policy initiatives to rebuild confidence fail to meet despite shared interest (recent WTO joint submission in response to Eastern Partnership?)

Security, economic integration governance

Turkey, South Caucasus Central Asia China:

Stronger economic engagement with wider region (EP, DCFTA, CDC etc)

Upstream investment and transit links

Governance and notably level playing field for IOC and NOC relations

Ukraine Belarus:

Economic reform, investment, transit trade and governance

The Market Challenge

Geopolitical challenges of European energy policy; oil & gas + climate

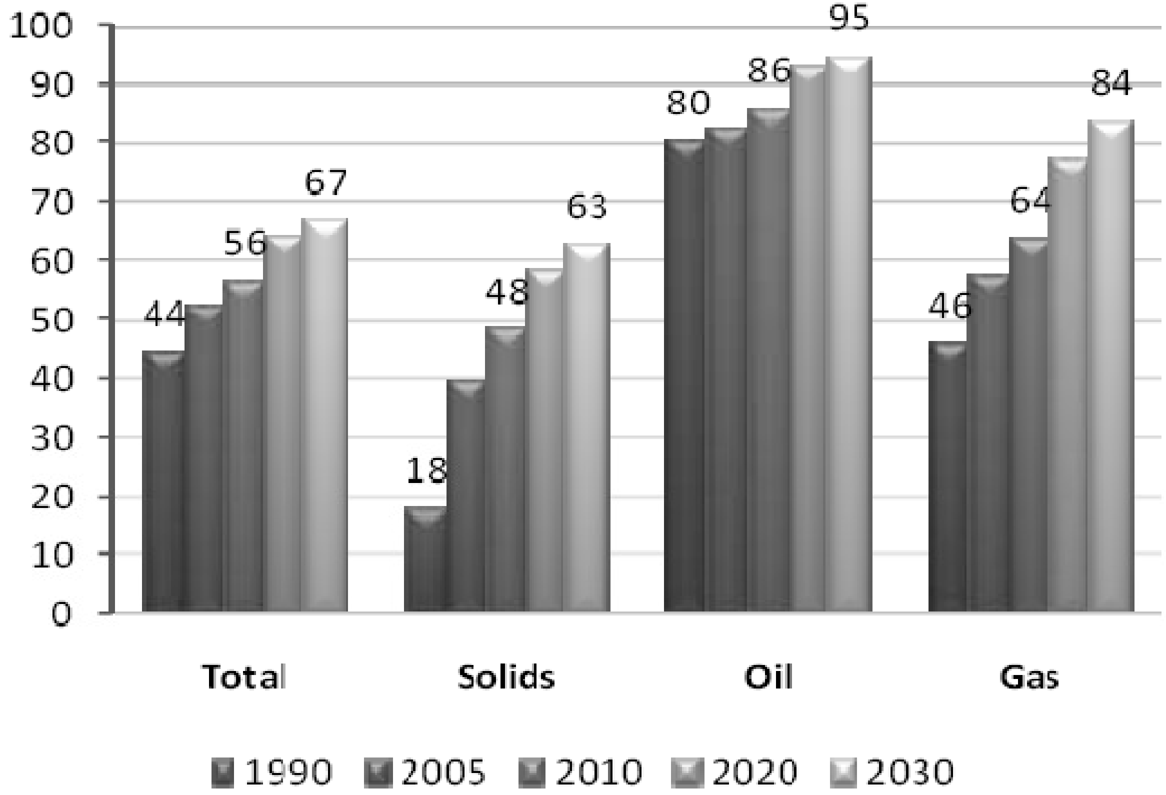
South East Europe & Black Sea region
Recent events expose network fragility and solidarity issues

The boundaries and names shown and the designations used on maps included in this publication do not imply official endorsement or acceptance by the IEA.
Note: Routes of planned pipelines are based on publicly available information, which in many cases is approximate

Caspian key to overall gas market performance including Russia

EU Import Dependencies

Bron: Europese Commissie 2008



Gas imports will have to rely on both pipeline and LNG imports

Post-crisis projections

Gas demand destruction, how does Russia and the Caspian fit?

Source: Primes, various	Baseline		NEP scenario	
bcm/a	61 USD/bbl	100 USD/bbl	61 USD/bbl	100 USD/bbl
EU demand	591	518	467	404
EU production	135	132	125	117
Net imports	**456**	**386**	**340**	**287**
Russia	181 – 250			
Norway	110 - 140			
Algeria	110 – 115			
Total	**401 - 505**			
Call on other sources	Strongly dependent on the response of the three largest suppliers to EU net import prospects			

© (Source EU Primes OME Industry)

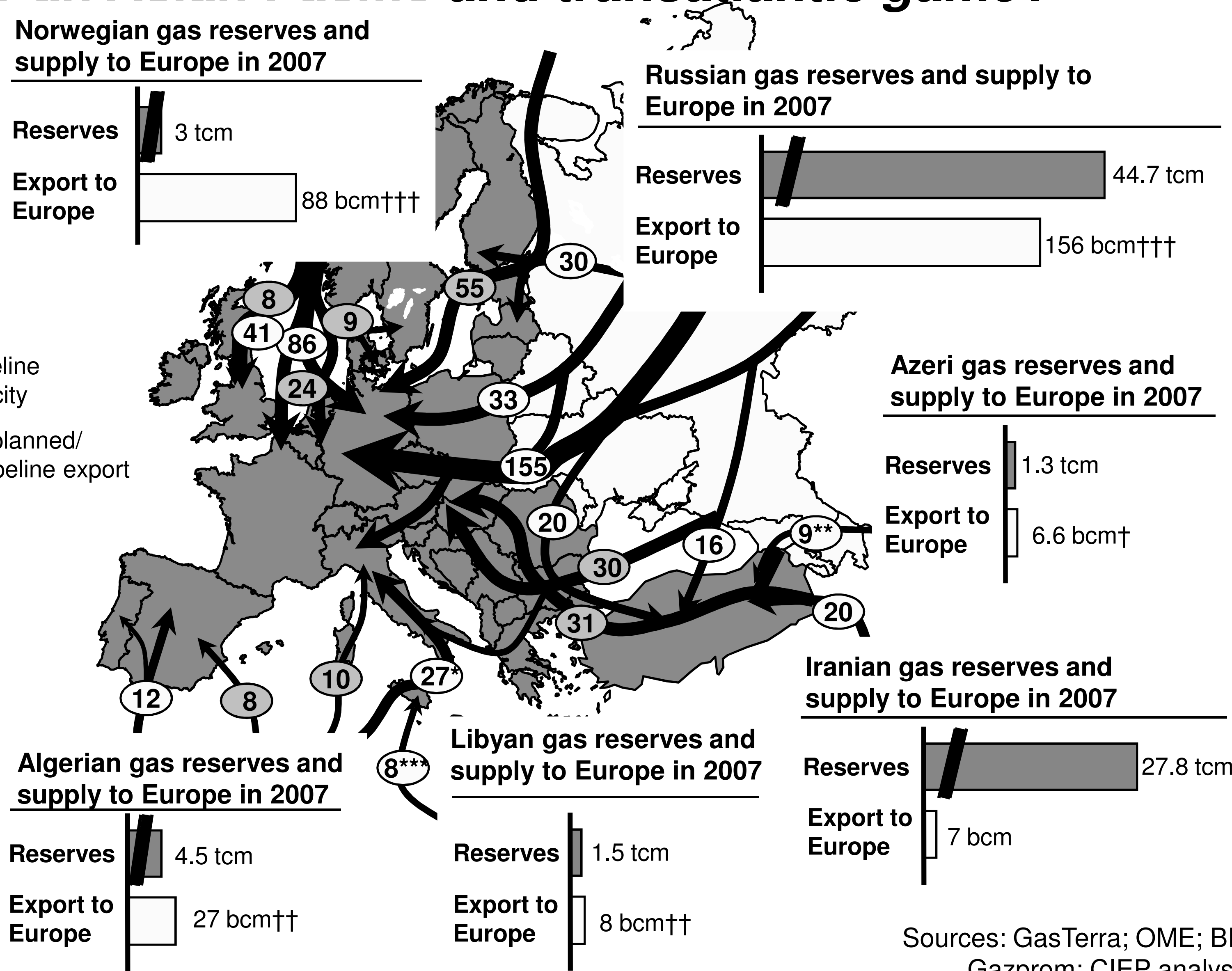
Only robust growth in gas demand (the transition fuel for climate change) avoids displacement of market share

Europe is encircled by plentiful pipeline supplies

LNG largely an Asian Pacific and transatlantic game?

x — Existing pipeline export capacity

x — Committed/planned/proposed pipeline export capacity



* The TransMed will be extended to 33.5bcm/yr in 2008.

** The South Caucasus pipeline could be extended to 16 bcm/yr in 2012.

*** The Greenstream could be extended to 11 bcm/yr.

† Data from 2006; contract is not solid.

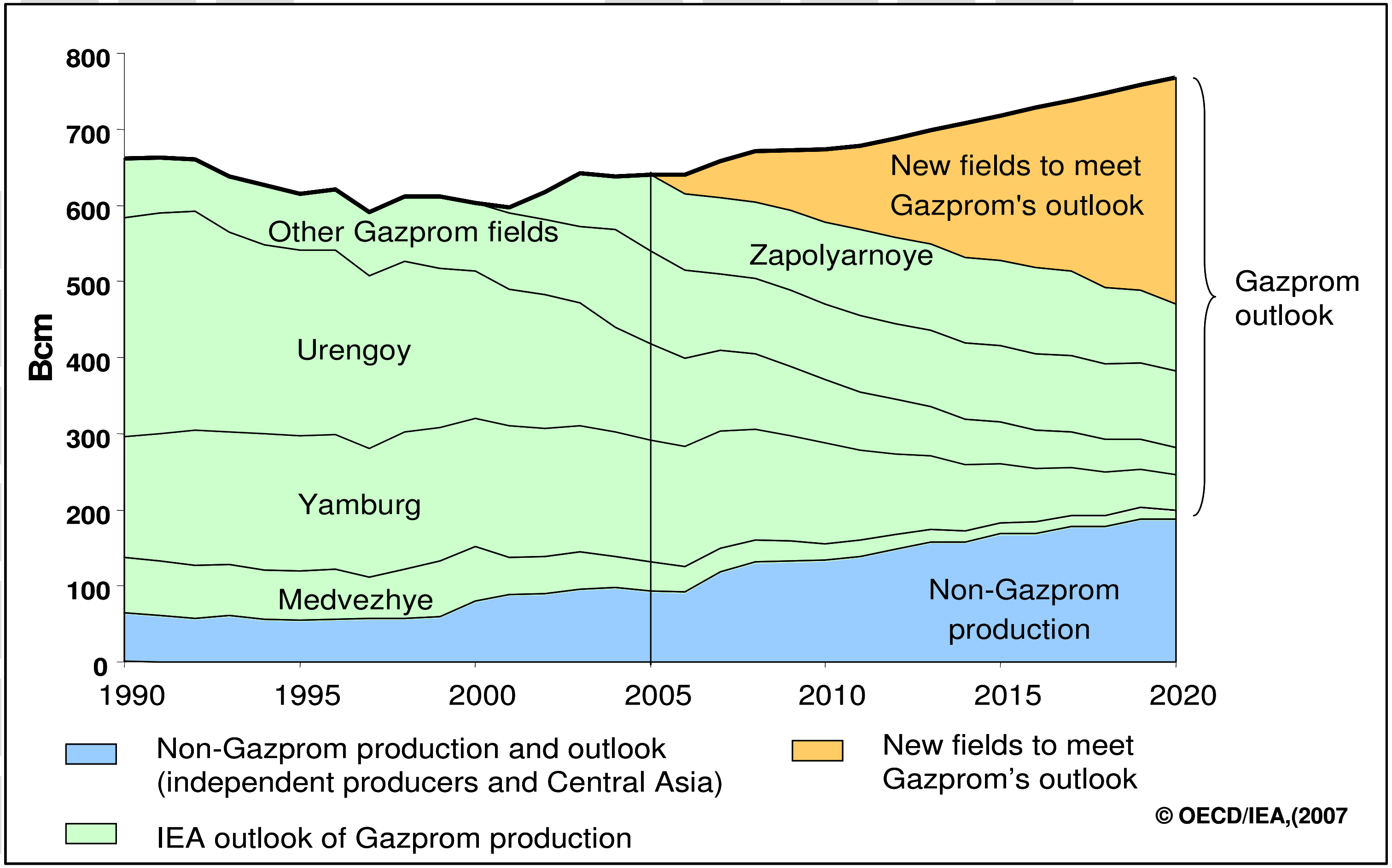
†† excluding LNG supply to Europe.

††† Converted to European bcm.

Sources: GasTerra; OME; BP; Gazprom; CIEP analysis

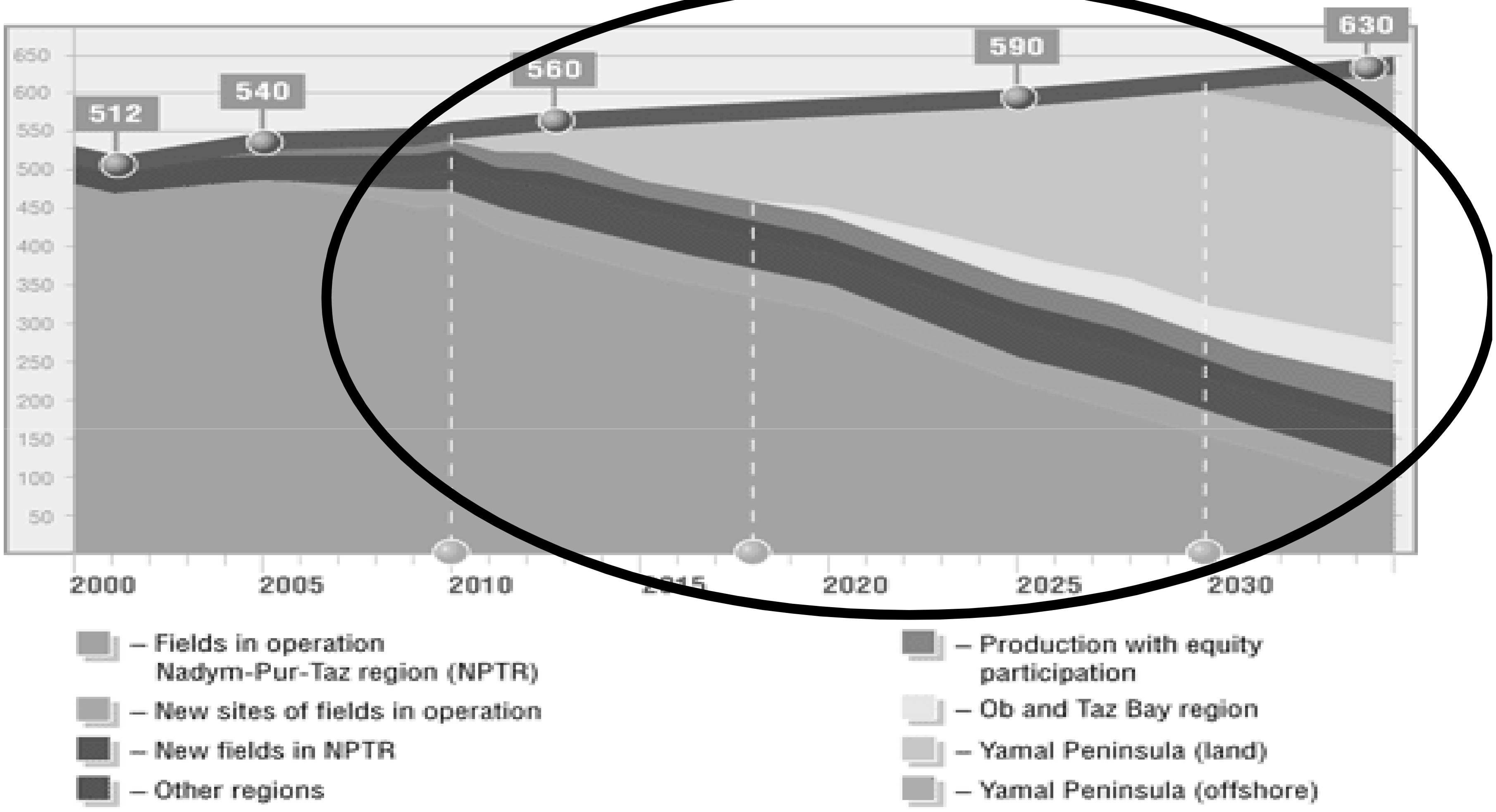
Russia leans on Central Asian gas so does the EU

Bridge to Gazprom, gateway to Europe backdoor to China

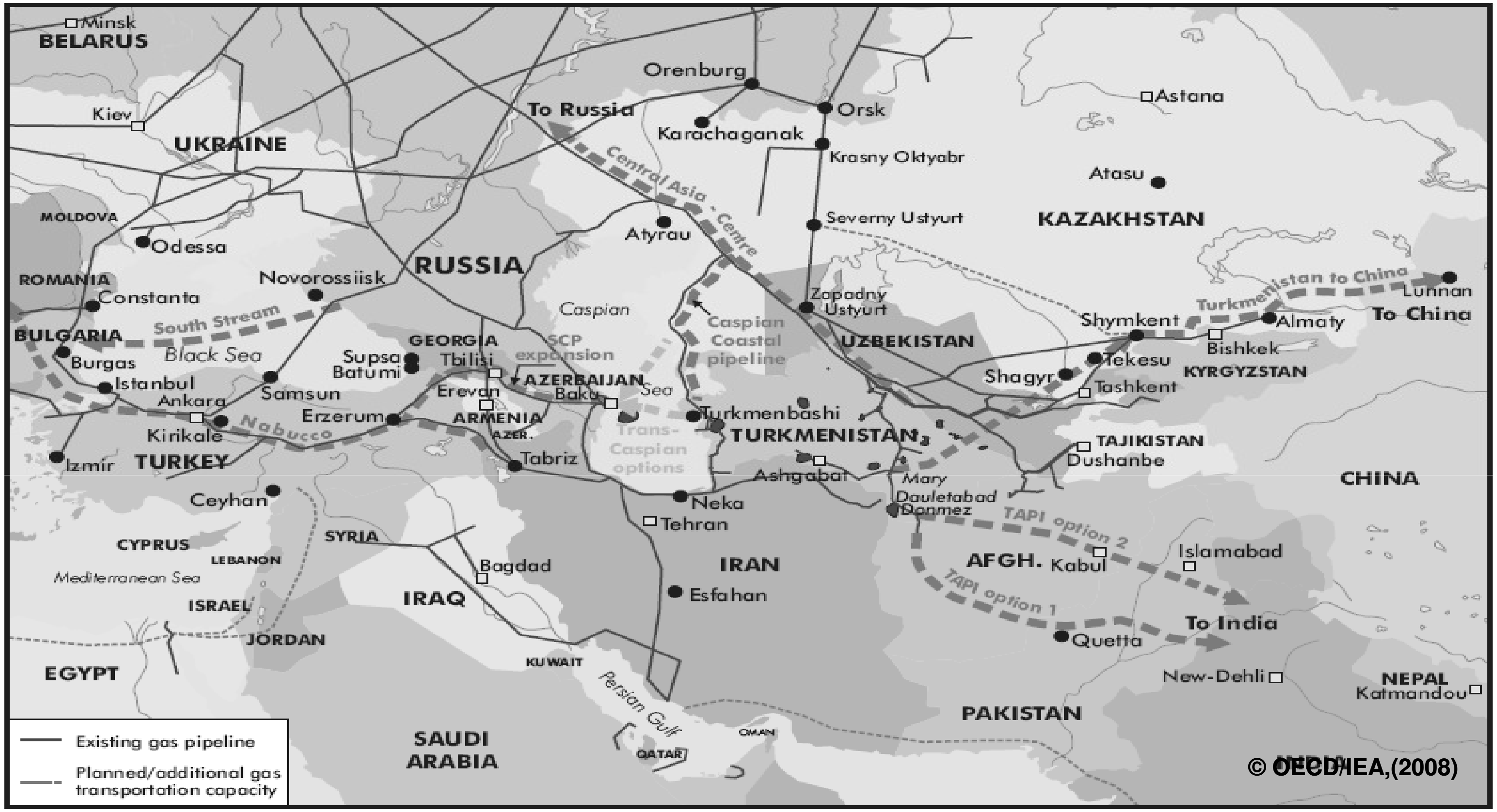


Direct market access and resource diversification are key

Gazprom supply outlook

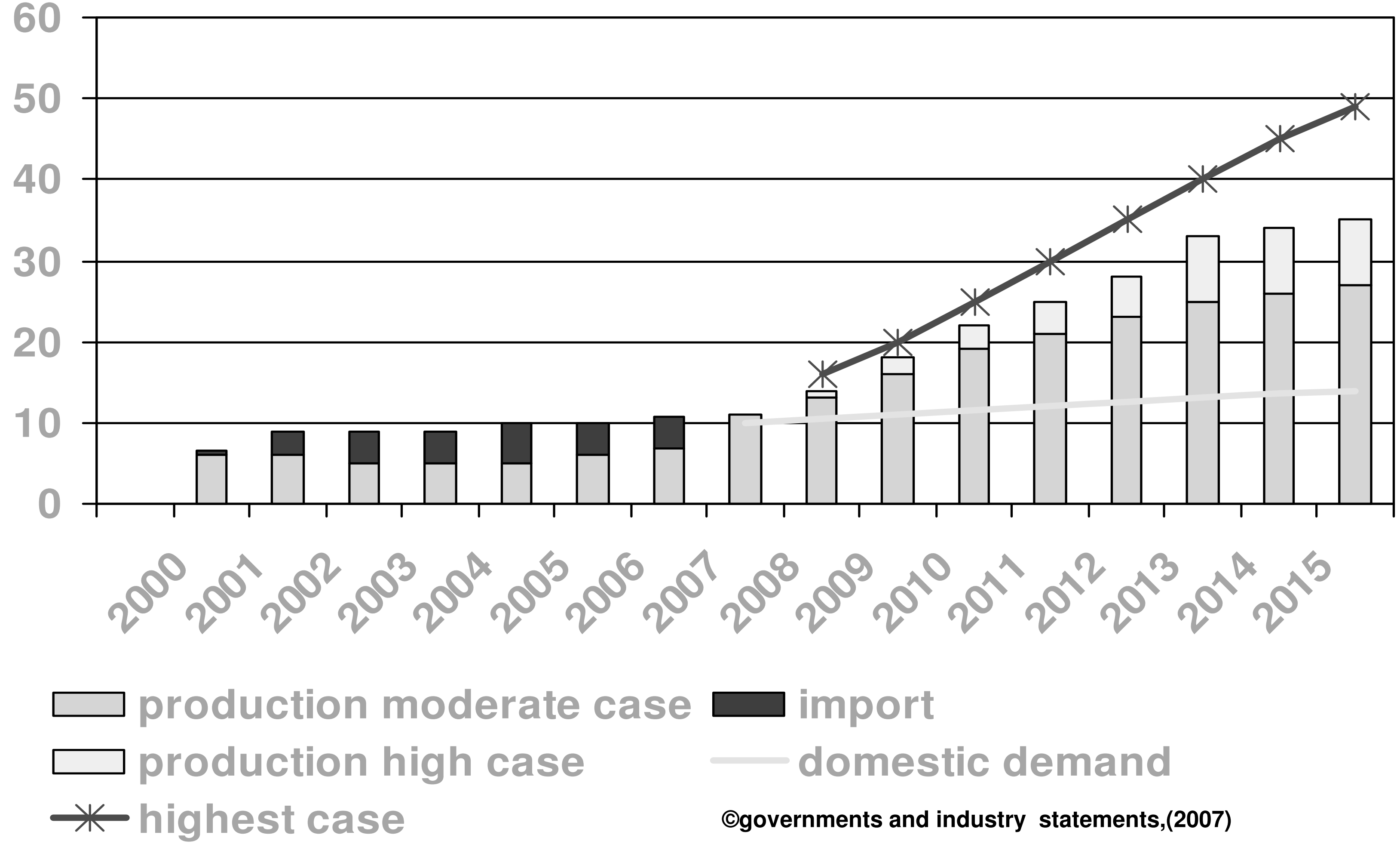


Pipelines aside
upstream investment is the real issue

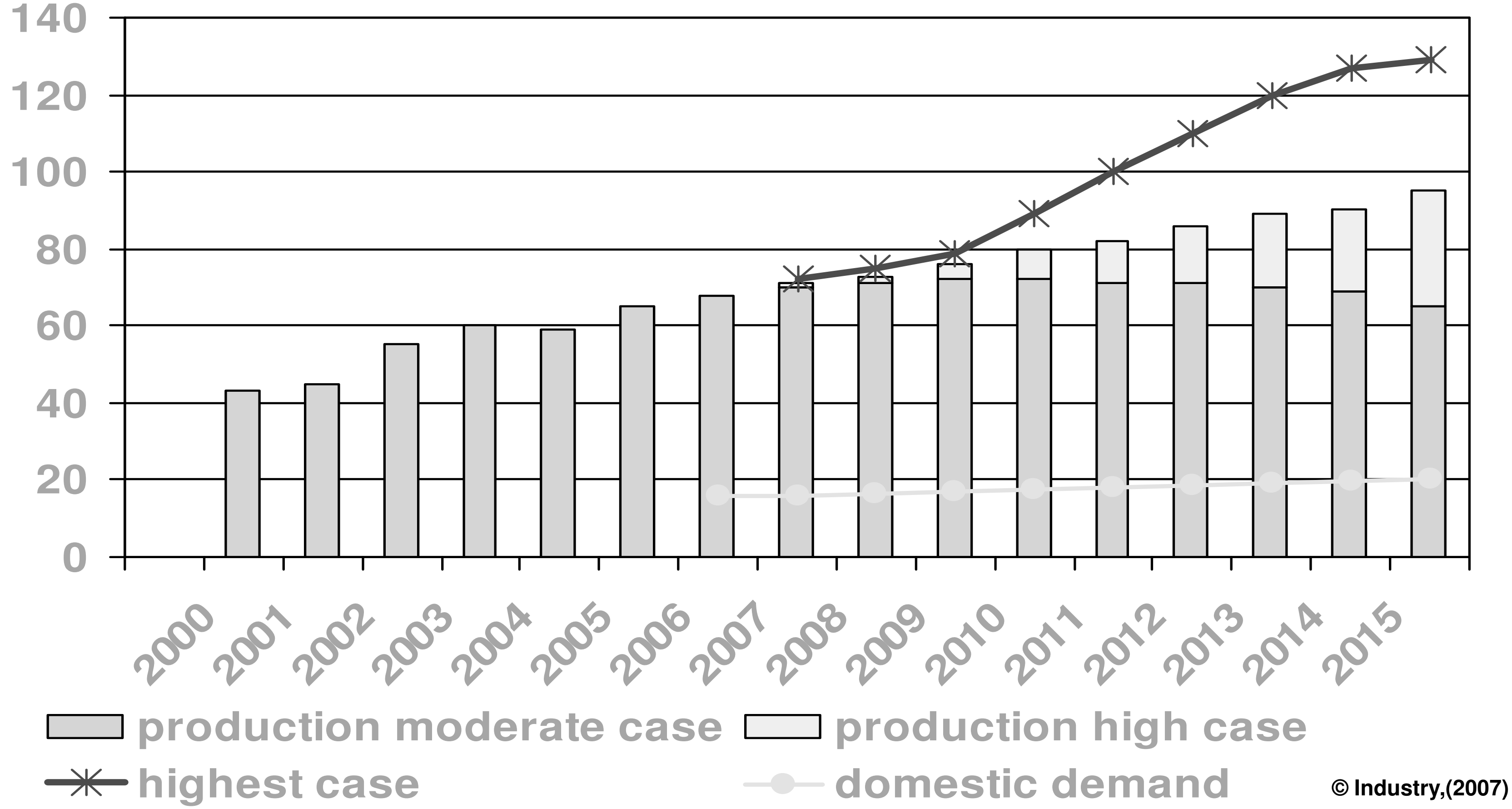


Economic down-turn may help to focus minds to make resources and available in rationalized routes when economy rebounds

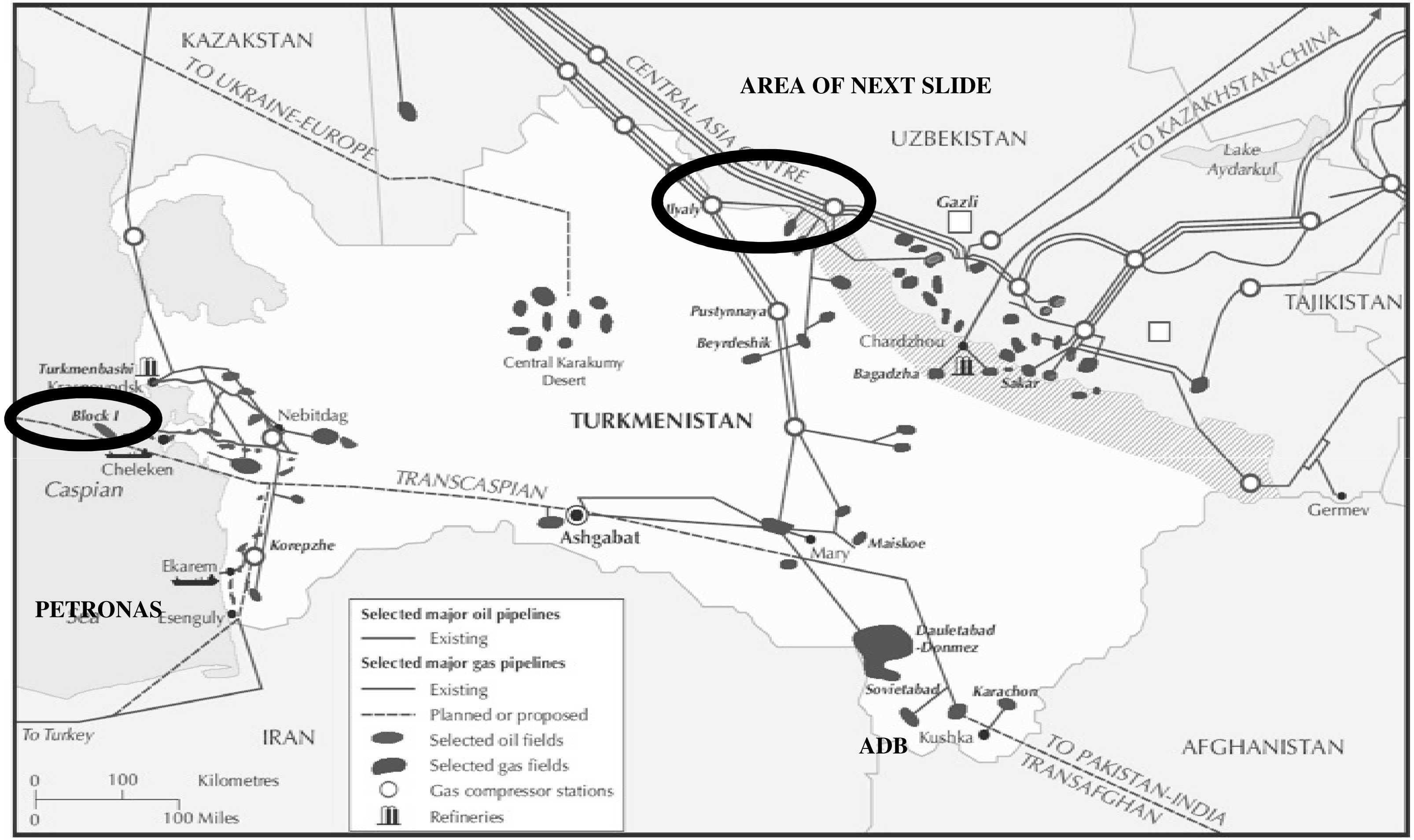
Azerbaijan Gas Supply Projections



Turkmen Gas Supply Projections

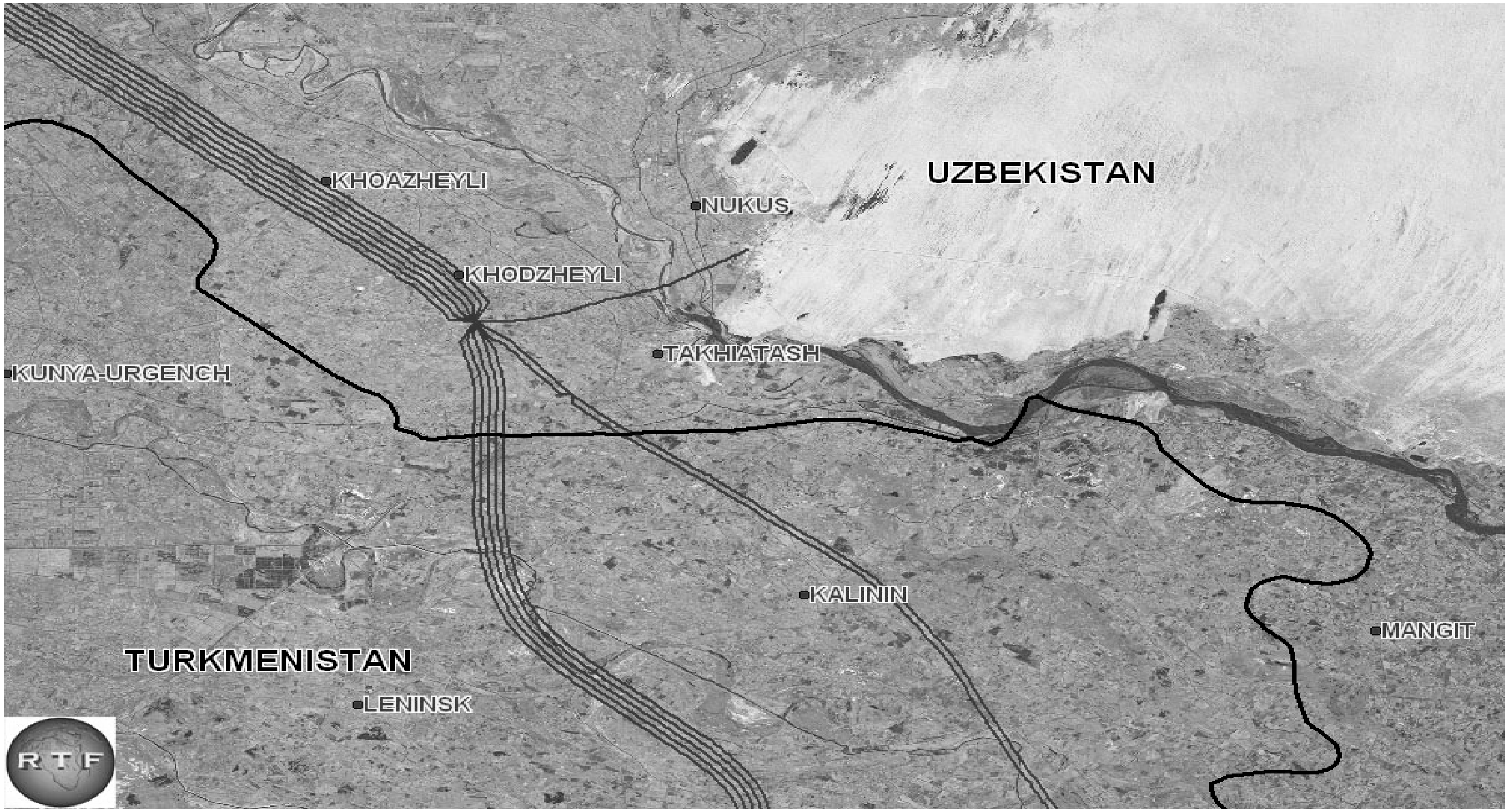


Close up Turkmenistan



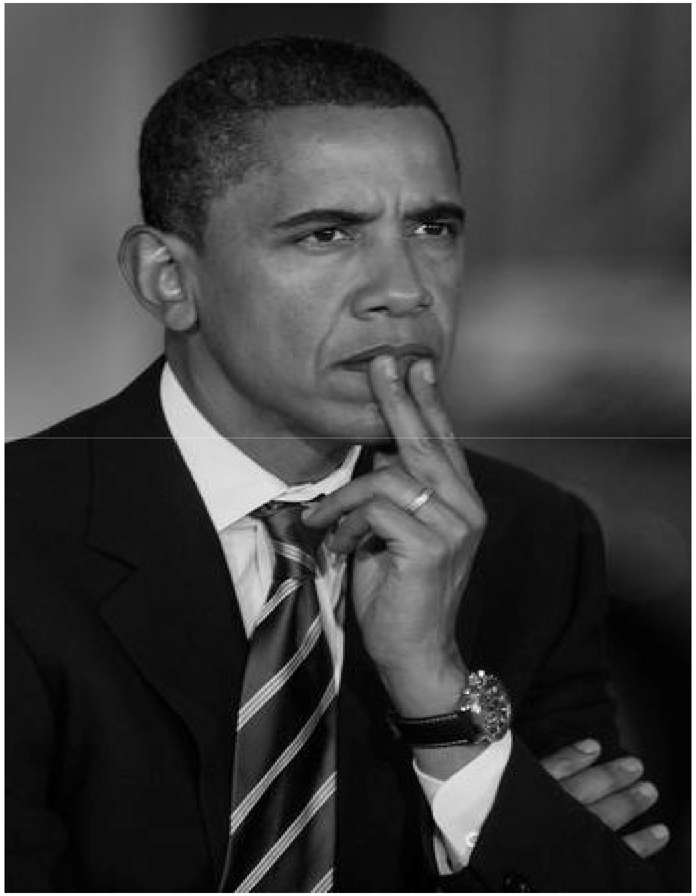
Technology & Capital intensive development needs require premiere league players

The Next Slide
Turkmen Uzbek codependency



Convergence of Central Asia Centre IV in Uzbekistan

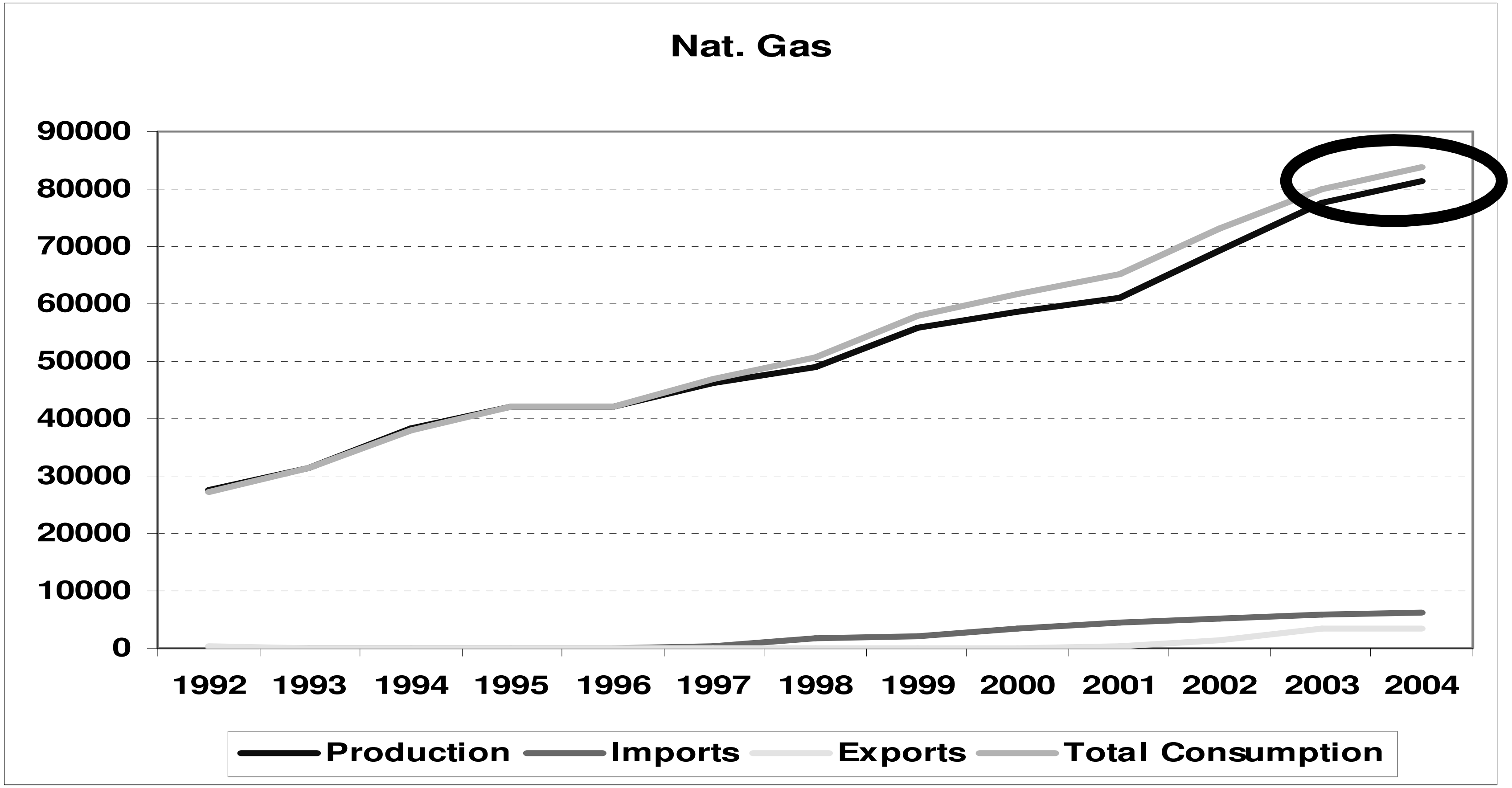
Iran
Evolving views



Governance aside
a very long term game

- Current Gas exports potential
  High domestic demand
  Reinjection requirements
  Petrochemichal ambitions
- Future Gas Export potential
  Geopolitical factors
  Geographic factors
- Regional interconnections
- China India Pakistan

Iran
running on vapours?



Iran currently imports gas from Turkmenistan at close to $300,- tcm

Chinese market dynamics

Euro Atlantic process and Asian Pacific practice

Bron: **Geopolitiek spel om energiecorridors**, Jan-Hein Chrisstoffels, Susann Handke en Coby van der Linde, in: *Geografie januari 2008*, januari 2008.

Market diversity

level playing field with clear & stable trade and investment terms hedge against risk perceptions

Conclusions

- Strategic investment in market needs government support that enables broad market integration
- This will enable a more sustainable gas market configuration in the wider region and avoid fragmentation
- Roadblocks may be cleared by focussing on Turkish transit/accession terms and mutual market access
- Eastern Partnership may help to calibrate EU policies, implementation resolve (DCFTA including energy) is key
- Pending major investment smaller incremental steps can be taken to improve reverse flow, interconnectivity etc.
- Can external energy policy tools differ from internal, if prospect of integration/ market reform is not there?
- ...?