Russia and EU: Gas Partners or Rivals?

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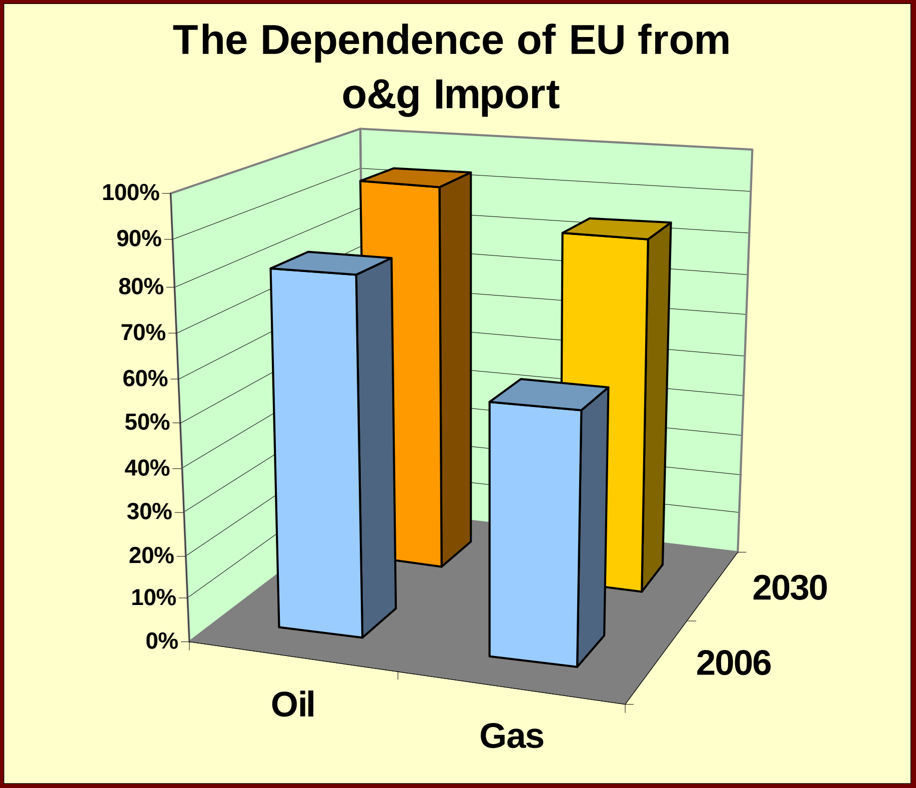
The European Gas Conference
Vienna
January, 23
2008

Two Dilemmas

- European Dilemma: to keep energy orientation toward Russia or set out in search of alternatives
- Russian Dilemma: to keep Europe as dominating energy consumer or to begin gradual re-orientation to the East
- Both sides are in the choice point of energy strategy for the next ten years
- That is why mistakes can be very dramatic

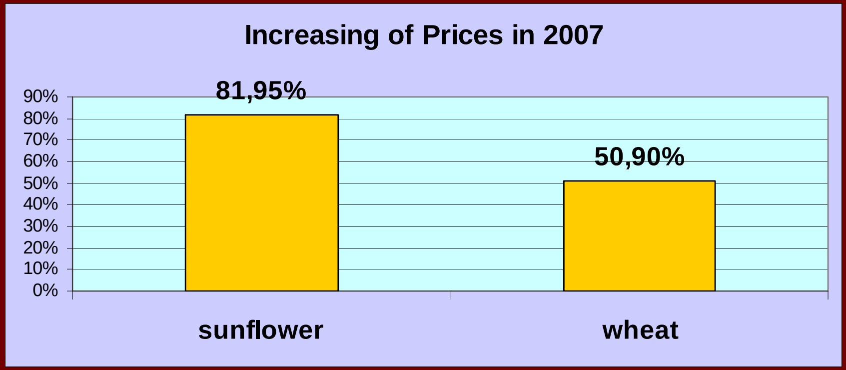
European Dilemma

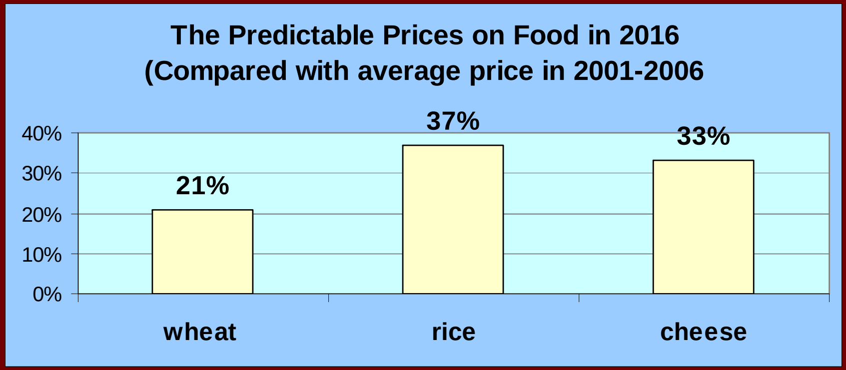
- Until 2030 the dependence of EU on import of o&g import will be seriously increased
- Conclusion: EU must find alternative to gas or alternative suppliers of gas. Both variants are very problematic



Alternatives to Gas

- Renewable energy sources: the problem of price and the problem of production volume
- The share of biodiesel on European fuel market is only 0,6%. No free areas under crop in Europe. Food inflation





Alternatives to Gas

- Coal: increasing of ecological risks
- Nuclear energy: developing only until the first serious terrorist attack. The problem of uranium
- But in this case Europe will not avoid Russia (8% of European coal market, 27% of European uranium market)

Alternatives to Russia

- Central Asia: the resource base are not clear (last example: failure of “gas chain” Turkmenistan – Iran – Turkey – Greece), political risks are high, competition with China
- LNG will not save Europe: serious increasing of consumption in the USA and Asia, not so rapid development of new LNG projects
- Strategically there is only serious alternative to Russia – Iran
- Conclusion: confrontation with Russia is dangerous to energy security of EU

Russian Dilemma

- Alternative to European market is gas export from Russia to East. China is not the new market - it’s partial substitute to export to Europe. Realization of new break-through projects in Upstream is behindhand from the plans. Gas extraction on brawnfields in West Siberia is declining
- That is why the East Siberia greenfields can be the new supply source for Europe (F.e. there are plans of delivery of gas from Kovykta field to Europe). But brawnfields of West Siberia can also be the resourse base for gas supply of China
- Such strategy is not the best for Russia

Russian Dilemma

- China is difficult negotiator - so we have price problem and problem of monoconsumer
- Future of Chinese economy is not predictable - so we have the problem of forecast of gas demand in China
- Lack of development of domestic market – Downstream is not so attractive than in Europe
- Serious need of new technologies in Russian Upstream – and China has nothing to offer to Russia
- Conclusion: re-orientation is possible but it’s not the most comfortable scenario for Russia

Struggle with Russia is Problematic Choice

- Rejection of cooperation is not profitable for both sides. That is why serious European pressure on Russia is very strange because such policy only increases energy risks for Europe
- Russia has not so many problems with European business and the leaders of ”old Europe”. The most problematic is our relations with European structures – so called “Brussels bureaucrats”

Main Energy Myths about Russia

- No more gas in Russia
- Russia is using “energy weapon”. Gas as an instrument of Russian political pressure
- Energy dependence from Russia is tremendously high and that is why it’s very dangerous
- Russia is the main competitor of EU in Central Asia

No Gas in Russia? No Foreign companies in Russian Upstream?

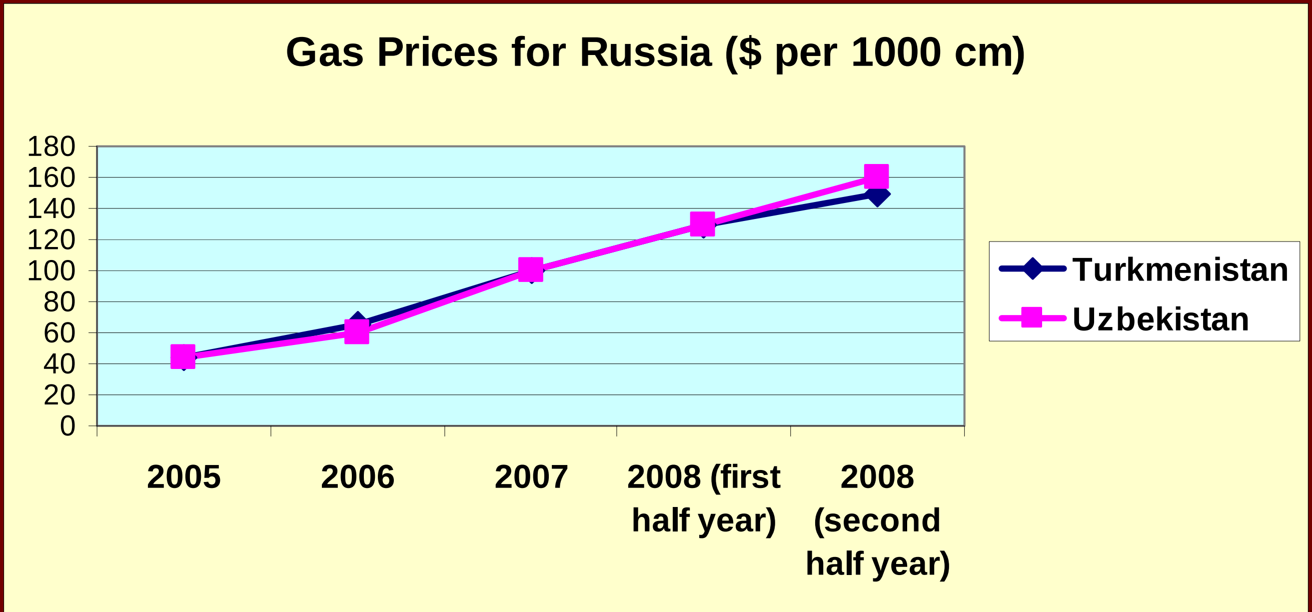
- No questions about resources – some questions about extraction
- Best variant to check the situation with extraction is to take part in this process. If you fulfill simple rules you can successfully work in Russian Upstream
- Two main rules: to be readily to exchange assets with Gazprom and to be backed by influential political characters on the national level who are loyal to Russia and Putin personally
- Russia has much more problems with entering to European Downstream than European companies in Russian Upstream
- Investment of European companies to Russian Upstream are 6-7 times higher than Russian investment to European Downstream. Last example – situation in Serbia

Who is Using Energy Weapon?

- There are no examples of political demand of Russia to European Union which are connected with gas question
- Usually European politicians and experts are speaking about Ukraine. But we don’t buy loyalty. $5 for 1000 cm is political weapon; $180 for 1000 cm is liberation from all political liability
- But the policy of Ukraine is very dangerous – first of all for Europe. Prime-minister Timoshenko wants to be the President. That is why she is carrying populist policy. There is not enough money in Ukraine budget. Why Russia must pay for such policy? Why EU is waiting for the new cases of “gas theft”?
- The increasing of transit prices from $1,7 to $9,32 has no economic reason

No Cheap Gas in Asia

- There is no cheap gas for Russia in Central Asia – so there is no cheap gas for Ukraine and Europe
- CAC became more aggressive with a help of Europe



Who is the main competitor of EU in Central Asia?

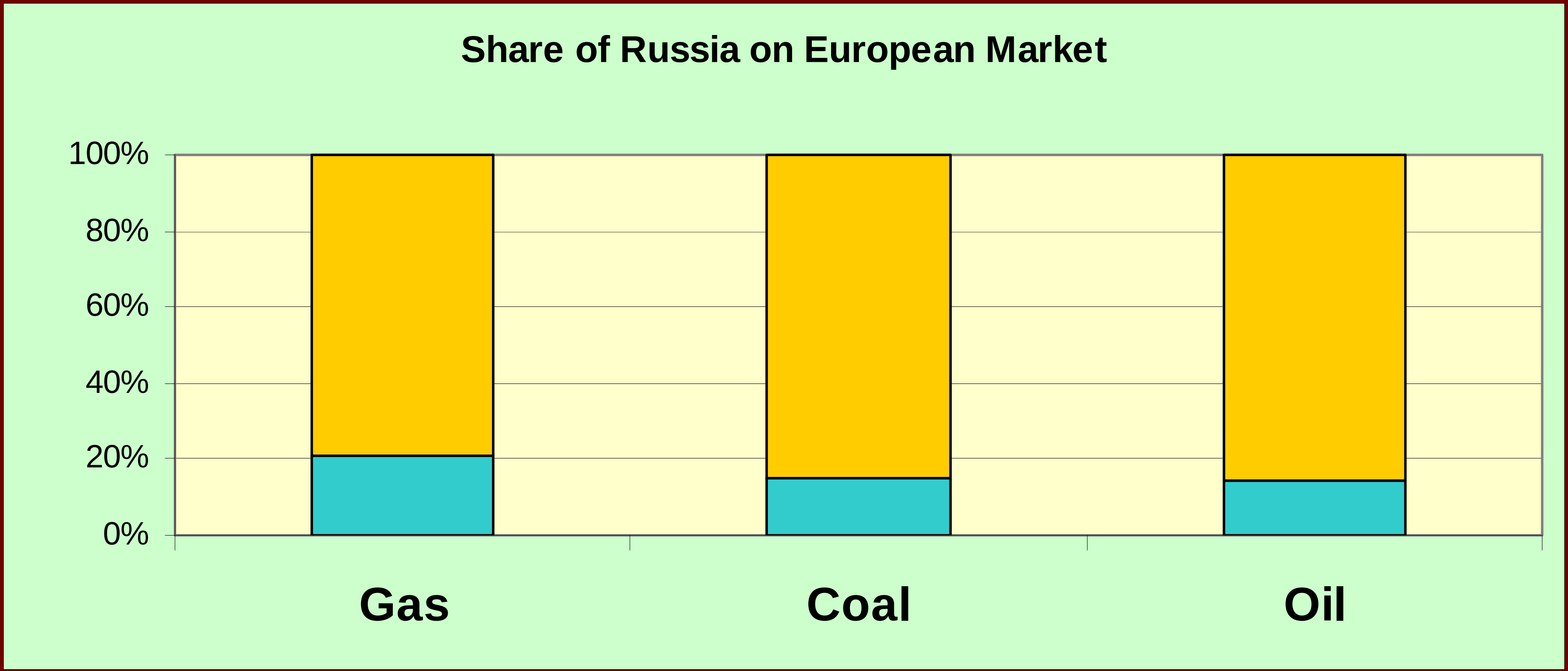
- China, not Russia. All Russian projects of gas export are for European market

Gas Pipelines from CA to China

Origin of Gas	Route	Planned Capacity
Turkmenistan	From right bank of Amudariya through Kazakhstan and Uzbekistan to China (Urumchi)	30 bcm in 2009–2038
Kazakhstan	Atiray – Aktobe – Atasy – Alashankoy	10 bcm in 2009, 30 bcm in 2012

Energy Dependence from Russia?

- Dependence is high but not absolute



European Choice of Russia

- Dmitry Medvedev as the successor of Vladimir Putin
- Attempt of acceleration of European gas projects
- What will be the answer of Europe?

Thank you!

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