



Security Of Natural Gas and Oil Supply: The Interests of Producing and Transit Countries

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Common EU Energy Policy and the
Energy Security of Slovakia II

Bratislava
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Kyiv International Energy Club



I. Major Challenges to the Security of Europe's Energy Supply

- ✦ Ever-growing global demand for fuel-energy resources (FER)
- ✦ Dangerous concentration of FER reserve stocks
- ✦ Increasing FER import dependency
- ✦ Urgent need for investment in the energy sector
- ✦ Climate change
- ✦ Food, energy and financial crises
- ✦ Geopolitical reforming of the world

The Green Paper "Towards a European strategy for the security of energy supply"



Dangerous concentration of FER reserves

- ✦ $\approx 50\%$ gas consumed in EU is provided by three countries: Russia, Norway and Algeria.
- ✦ 80% - in the next 25 years? The analysis of current trends can help forecast such increase in concentration.



Increasing import dependency

- **Nowadays such supply constitutes 50%**
- **≈ 70% by 2030?**
 - If internal energy market fails to become more competitive in the next 20-30 years, 70% of EU energy demand will be satisfied by imported FER
- **Some regions supplying or transporting FER are politically unstable**



Urgent need for investment

- Satisfaction of existing energy demand and restoration of available infrastructure during the next 20 years require 1-trillion-euro investment (€ 1,000,000,000,000).

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Climate change

- ✦ The development of energy consumption structure (incl. electricity, transport, etc) is contributing to the increase in greenhouse gas emissions and of carbon dioxide in particular.
- ✦ Environmental concerns require new ways to compensate damage caused by the energy supply system



Other challenges

- ✦ **Ever-growing global demand on fuel-energy resources**
 - \approx 60% by 2030
- ✦ **Food, energy and financial crises**
 - How will they further impact the current and future energy supply system?
- ✦ **Geopolitical reforming of the world**
 - Internal tension and political uncertainty as factors influencing the smooth functioning of the energy market
 - External supply conditions as a tool of political influence
 - What changes should we expect from such processes?



II. Meeting the challenges

Forming Energy Security Strategy

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Develop competitiveness and internal energy market

- It is essential to ensure that the fuel distribution market remains open, in particular for independent operators. This is a guarantee for competition in the market.
- Preserving access to resources
- Development of alternative energy sources



Ensure external supplies

- **Relations with producer countries**
 - an ongoing dialogue with producer countries must facilitate the improvement of pricing mechanisms, the conclusion of agreements and the use of reserve stocks for mutual benefit
- **Strengthening supply networks**
 - Improve interconnections between the networks
 - Remove bottlenecks by enhancing infrastructure
 - Diversify geographic sources of supply



Secure coordinated and coherent external energy policy

- Clear and efficient energy diversification policy
- Stable, mutually beneficial relations with producer countries, transit countries and other international stakeholders
- Prompt and effective response on any external crisis situations
- Integration of energy into other fields of industry production
- State contributions to the development of energy sphere in the world



Meeting the challenges - Main conclusions

- ✦ **The focal points of secure European energy supply are:**
 - diversified sources and ways of transportation of imported energy resources
 - improved conditions for European companies, which strive for access to world energy resources
 - revised EU approaches to strategic oil and gas reserves
 - joint use and sharing of FER reserve stocks



Meeting the challenges - Main conclusions (2)

- **Striving to overcome present-day challenges EU countries face a fundamental need for:**
 - unity in order to map out a new, pan-European strategy in the energy field
 - readiness and willingness to follow the principles and correspond to requirements of such a strategy
 - systematic good-neighbourly relations with other countries

These factors have a profound impact on strategy realization.



Meeting the challenges - Main conclusions (3)

- **Global nature of challenges to energy security and increasing interdependency among countries-producers, countries-transporters and countries-consumers of energy resources imply the need for:**
 - effective cooperation among these countries
 - creation of transparent and competitive market conditions



Meeting the challenges - Main conclusions (4)

- ✦ **Top-priority emphasis should be placed on the realization mechanisms designed to reach the mentioned goals. These mechanisms must be able to:**
 - consider the real situation
 - forecast the development scenario of each member-country
 - take into account the major global trends



III. Natural Gas and Oil Supply

Forming Energy Security Strategy

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With irony or seriously?

- ✦ “Energy security” as “strengthening the impact of suppliers and weakening the importers” – such perception not only leads to a severe decrease in competition and a sharp increase in political vulnerability, but also undermines the power of law.
- ✦ Major EU’s energy security concerns, which are caused by the growing dependence on Russia, have never been stronger.



Gazprom's strategy

- **Cooptation** – cultivation of special 'partner relations' with political leaders and corporations of other states for the promotion of Gazprom's interests
- **Use of its energy-supply and Russian diplomacy influence** as a way to obtain beneficial conditions for the control of distribution networks and the takeover of assets of other countries
- **Disaggregation** of EU with the help of bilateral agreements with separate EU-members
- **Execution of retributive policy** defined by the Kremlin

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Realization of Gazprom's strategy

- ✦ **Can be seen in the analysis of relevant events in Germany, Turkey, Ukraine, Belarus, the Baltic states, the Czech Republic, Poland, Italy, Spain, the Caucasus (apart from war in Georgia there was a buying-up of Armenian energy sector), participation in isolation of Iran as a strong competitor, activities in Central Asia, the Balkans, the Northern Africa and other countries.**
- ✦ **The Kremlin political struggle for new spheres of influence with the help of Gazprom and its oil companies became one of the causes of sharp decrease in the country's oil and gas production growth rate.**
- ✦ **Gazprom is concerned about its role. It starts to lose its position of reliable supplier. Instead of investing in corporate development it has to fight with Russian private business and invest \$14 billion in nonspecialized assets.**



Can Brussels require transparency, commensurability, adequacy and supremacy of law from Moscow in order to attain

Revolutionary integration of European and Russian markets?

- ✦ The access to current European distribution networks and creation of new ones can depend on corresponding sincerity of Russian energy sector.
- ✦ **Parity conditions** are more likely to be reached under stipulation of effectively diversified energy supply sources as well as considerable investments in LNG, the Nabucco pipeline, and pipelines linking the Mediterranean countries.



EU's response to Gazprom

- Gazprom is and will remain one of the main gas suppliers on European market ($\approx 25\%$).
- EU will strive for deeper interaction, but also insist on restructuring of Gazprom and real access of European companies to the Russian market.
- The steps in this direction are legislative initiatives taken to forbid the companies to own the assets in the fields of gas production, gas transportation, and gas supply simultaneously.



Political vs. Economic Motivation

- **Gazprom's policy with the focus on new routes (e.g. Nord Stream or South Stream), which by-pass the territories of Ukraine, Belarus, Poland and other countries transiting Russian gas, requires huge investment - about € 25 billion each (the second branch of the Yamal-Europe pipeline could be about 10-times cheaper).**
- **Such policy creates controversy among EU countries, causes environmental concerns and does not provide any opportunity for a "third-party" access to the pipeline.**



“Primorsk-2” oil transportation system

- **Realization of new “Primorsk-2” oil transportation system with a capacity of more than 60 million tones of oil per year also implies a by-pass route, which goes beyond “Druzhba” system of transit oil pipelines in Ukraine, Belarus, Slovakia, Poland, and the Baltic states.**
- **Such system will crucially decrease the utilization of the mentioned pipelines in each of the countries.**



Is it possible to find compromises among suppliers, transporters and consumers?

- 1. During negotiations all parties must use only objective data concerning pricing, technical and environmental indicators as well as legal norms of the member-countries
 - Example: Society is misinformed concerning technical conditions, maintenance and use opportunities of the “Druzhba” pipeline’s northern branch, which was stopped under pressure of politicians, oil and gas pipelines in Ukraine. They do not differ from corresponding technical conditions and characteristics of Russian pipelines. Moreover, during 9 months of 2008 Ukraine has increased the amount of transported gas by 16% in comparison to the last year’s corresponding period.



Is it possible to find compromises among suppliers, transporters and consumers? (2)

- **2. Parties can substantially increase the reliability of energy corridors among the Baltic, Black and Caspian seas through:**
 - cooperation aimed at realization of the system's objective technical audit,
 - preparation of the by-passing routes with the use of free capacities, existing and newly-created buffer storages, and hydrocarbons for emergency case,
 - installation of the general coordinating control centre.



Is it possible to find compromises among suppliers, transporters and consumers? (3)

➤ 2. (Continued)

– Examples of cooperation:

- a. Central Asian countries agreed on new rules of joint use and sharing of region's water-energy resources for 2008-2009 and signed the relevant 5-lateral agreement.
- b. The Baltic States, Poland, Ukraine, Georgia and Azerbaijan have created a working group, which prepares the concepts of fundamental principles of the FER transit-countries cooperation with the help of EU representatives.



Energy Supply Security – Conclusion

- ✦ Despite all changes on the planet, new geopolitical processes, and threats of existing and future world crises, - the strategy of unified efforts of states and corporations aimed at the secure future and benefit of mankind **must be a top priority.**
- ✦ **First of all, that concerns security in the world's energy sector.**



**Thank you for your
attention!**

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