EU-Russian relations: The role of gas

1st meeting of EU-Russia Gas Advisory Council
Vienna, 17 October 2011
The EU-Russia Energy Dialogue is strategically important

### Key steps in the EU-Russia Energy Dialogue

- 2000 – Agreement to initiate EU-Russia Energy dialogue
- 2003 – Permanent Partnership council set up
- 2008 – Negotiations for New EU-Russia Agreement launched
- 2010 – Early Warning Mechanism instated
- 2011 – Launch of EU-Russia roadmap and Gas Advisory Council

### Background to the EU-Russia Gas Advisory Council

- Joint Statement byCssr. Oettinger and Min. Shmatko: GAC should
  - assess the development of gas market in the EU and Russia
  - Make long-term recommendations for EU-Russia gas cooperation in sustainable, competitive and secure way
- Work of GAC to flow into EU-Russia 2050 Roadmap
While only 1/10 of bilateral trade value gas has strategic character

**EU imports from Russia, 2010; Total value 118 bn EUR**

- Oil is by far outweighing gas in bilateral trade
- Nevertheless gas dominates the bilateral discussions because
  - gas markets are less developed and competitive and not global
  - logistics of gas require pipelines – sourcing possibilities are less diversified
  - gas is strongly tied to the electricity sector while oil is mostly confined to transport
  - gas imports to grow?
  - histories: high degree of political involvement, gas crisis

Source: Eurostat 2010
The EU and Russia have a mutual dependency

**Russia’s exports of natural gas**
- CIS 29%
- Turkey 9%
- West Balkans 2%

**EU imports of natural gas**
- Norway; 31%
- Russia; 34%
- Algeria; 14%
- Qatar; 5%
- Libya; 3%
- Nigeria; 2%
- Others; 11%

Source: Eurostat, 2009 data
Russian gas production

Source: Energy Research Institute Moscow, Energy Strategy of the Russian Federation 2030
Modest increase of EU gas consumption while imports grow

Balance of natural gas in the European Union
Energy policy has been a cornerstone of European integration since its very beginning through the European Coal and Steel Community. In its daily activities, the EU contributes to delivering competitive, secure and sustainable energy for Europe.
Meeting our “20-20-20 by 2020” goals

- Reduce greenhouse gas levels by 20%
- Increase share of renewables to 20%
- Reduce energy consumption by 20%

Current trend to 2020: -20%
Current trend to 2020: 20%
Current trend to 2020: -10%
Completing the EU internal energy market

- Target date 2014 – European Council

- What is to be done?
  - Implementing Third energy package
  - Harmonizing market rules and network operation rules
  - Enforcing competition and State aid rules
  - Enhancing investments in infrastructure
  - Empowering consumers
  - Promoting regional initiatives

Some progress has been made towards competitive markets but significant tasks still ahead
Impressive growth of hub traded gas volumes...

Annual traded volumes on Continental European hubs

Source: European Commission, IEA.
...contributing to lower average wholesale gas prices...
Decreasing domination of oil-indexed price contracts

Wholesale gas price formation mechanisms in Europe (share of consumption)

Source: 2009 International Gas Union Survey.
Diversification of supply routes

Russian exports of natural gas to the EU by transit route, volume (in bcm) and relative size (%), May 2010 - April 2011

- To be opened soon
  - Nord Stream

- Other upstream projects
  - Southern Corridor (EU)
  - South Stream
  - Far East (Russia)

- LNG liquefaction and re-gasification project in Russia and the EU respectively

Source: IEA gas trade flows Europe
Lack of interconnection makes a market vulnerable

Missing gas supplies from 6 to 20 January 2009
(on average 300 mcm/day)

Source: European Commission, GSE
Significant gap remains to reach decarbonisation target

PRIMES Reference scenario: Primary energy demand by fuel and carbon intensity

Mtoe

Carbon intensity

RES
nuclear
gas
solids
oil
carb. int.
(REF)

1990 2010 2030 2050
Overall gas use is likely to decrease but imports will continue to grow

- Gas demand broadly stable until 2015 declining thereafter due to better efficiency and more RES
- Gas production continues downward trend
- Gas imports continue increasing through 2050, when they are 21% higher than today
Decarbonisation needs new and ambitious energy and climate policies

- The energy system would have to reduce emissions by some 85% by 2050 to contribute to the overall reduction targets in an efficient manner.

- Improved energy efficiency, more renewable or nuclear energy and Carbon Capture and Storage are the main tools.
  - All are likely to come into play
  - Differences across Member States and subject to political and public acceptability

- The Energy 2050 roadmap will explore different decarbonisation scenarios on the basis of these tools.
  - But it will not prescribe the path to a decarbonised energy system
GAC to provide input on future role of gas EU-Russia relations

- What are the main drivers of development in the sector?
- What is the interrelation between energy policy and corporate decisions on investment?
- Does gas have to be regarded in the global or regional context?
- How will global developments influence EU-Russia relations?
- What kind of infrastructure do we need?