



**UNIVERSITY OF  
CAMBRIDGE** | **Electricity Policy  
Research Group**

# **Beyond Dependence**

## **How to Deal with Russian Gas**

**Pierre Noël**

University of Cambridge  
& European Council on Foreign Relations

Russia Foundation, London, 3 February 2009

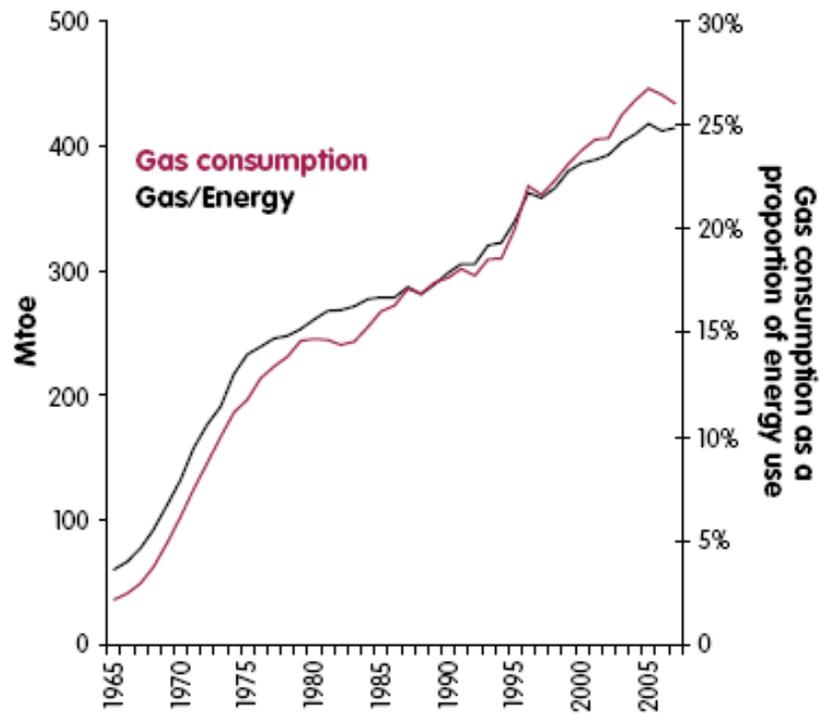


# Main messages

- Russian gas is important, not dominant
- Gas supply has been diversifying for decades – Diversification is accelerating
- Gas consumption is in the west, dependence is in the east
- Russian gas is divisive politically and poses a supply security risk
- Building a competitive, integrated European gas market should be the core of Europe's response

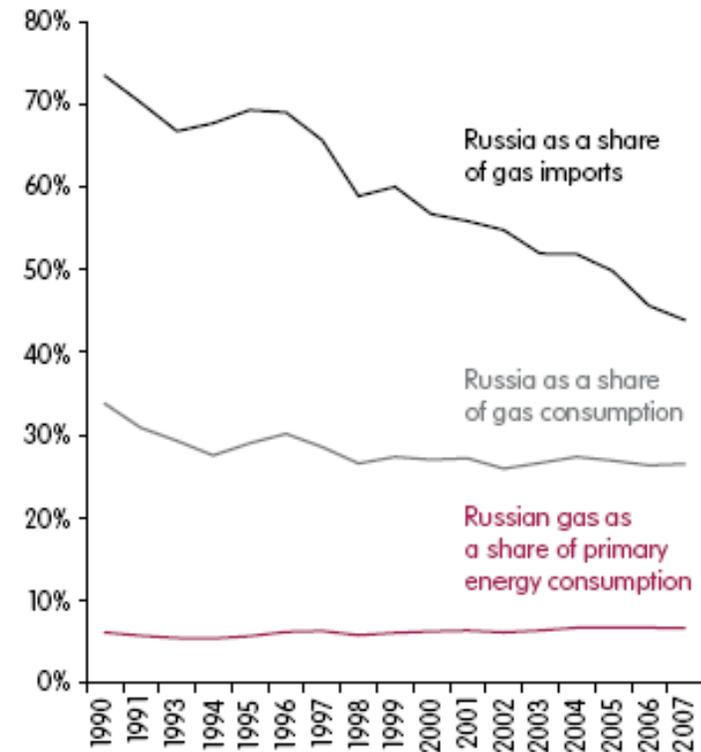
# Europe's energy: Gas up, Russia down

Figure 1. EU27 gas consumption, 1965-2007



Source: BP Statistical Review of World Energy (from Cedigaz)

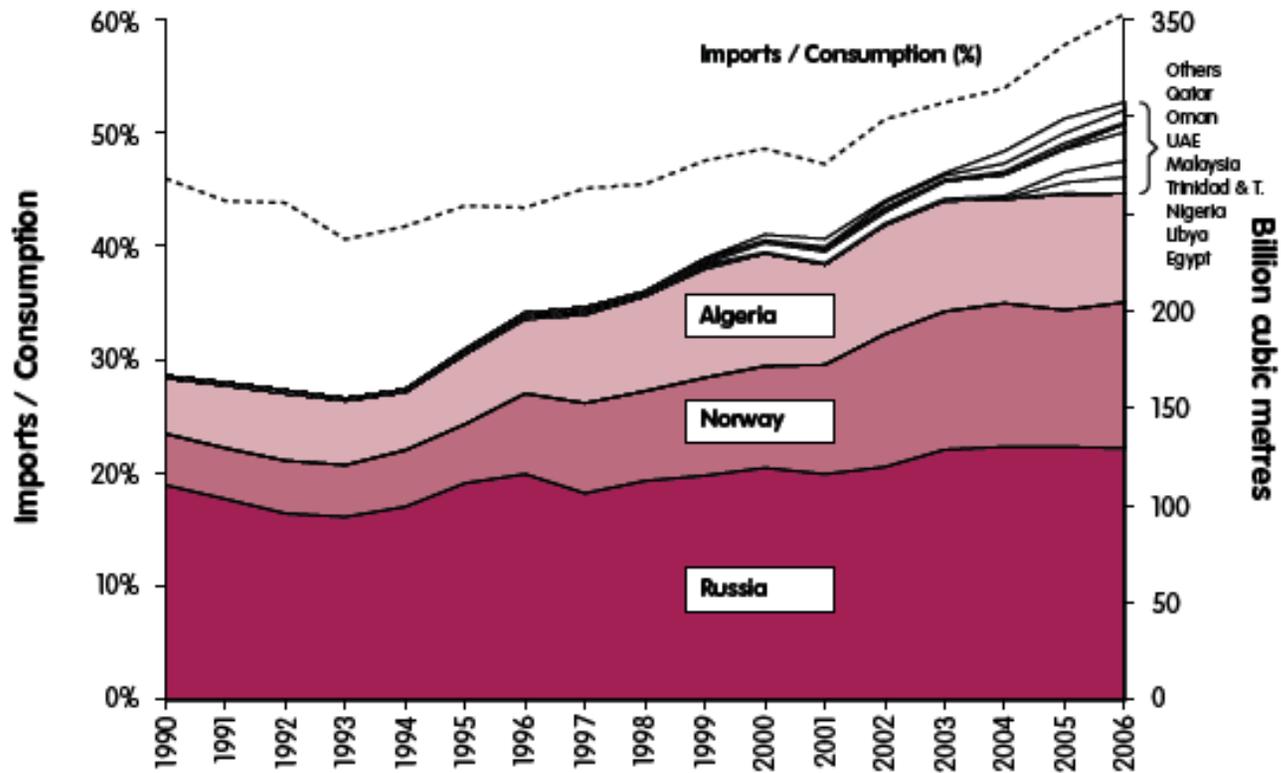
Figure 5. EU27 dependence on Russian gas, 1990-2006



Source: Eurostat; BP Statistical Review of World Energy

# Gas supply: 20 years of diversification

Figure 4. EU27 gas imports, 1990-2006

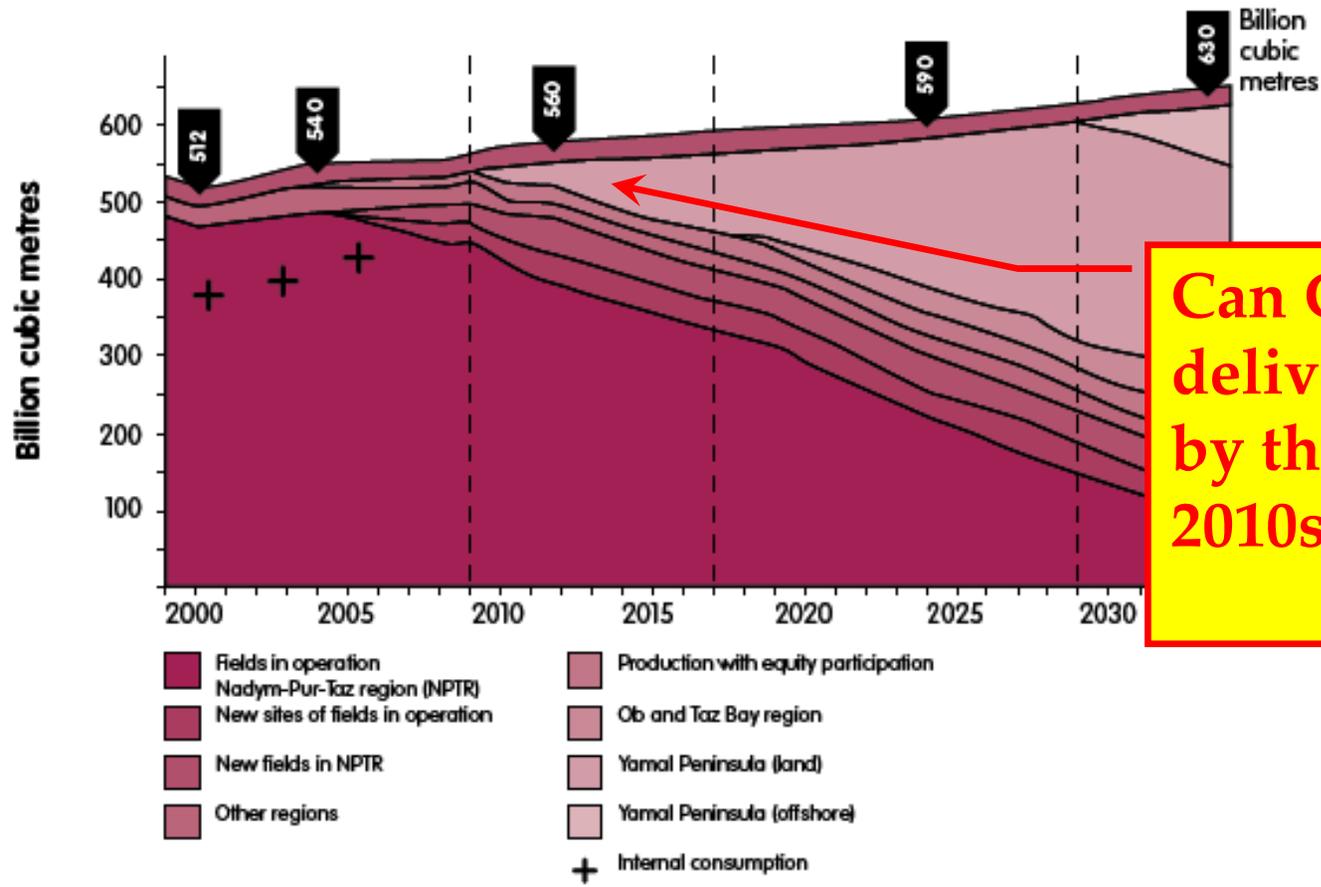


Source: BP Statistical Review; Eurostat

# More Russian gas for Europe?

Gazprom's data says: *highly unlikely.*

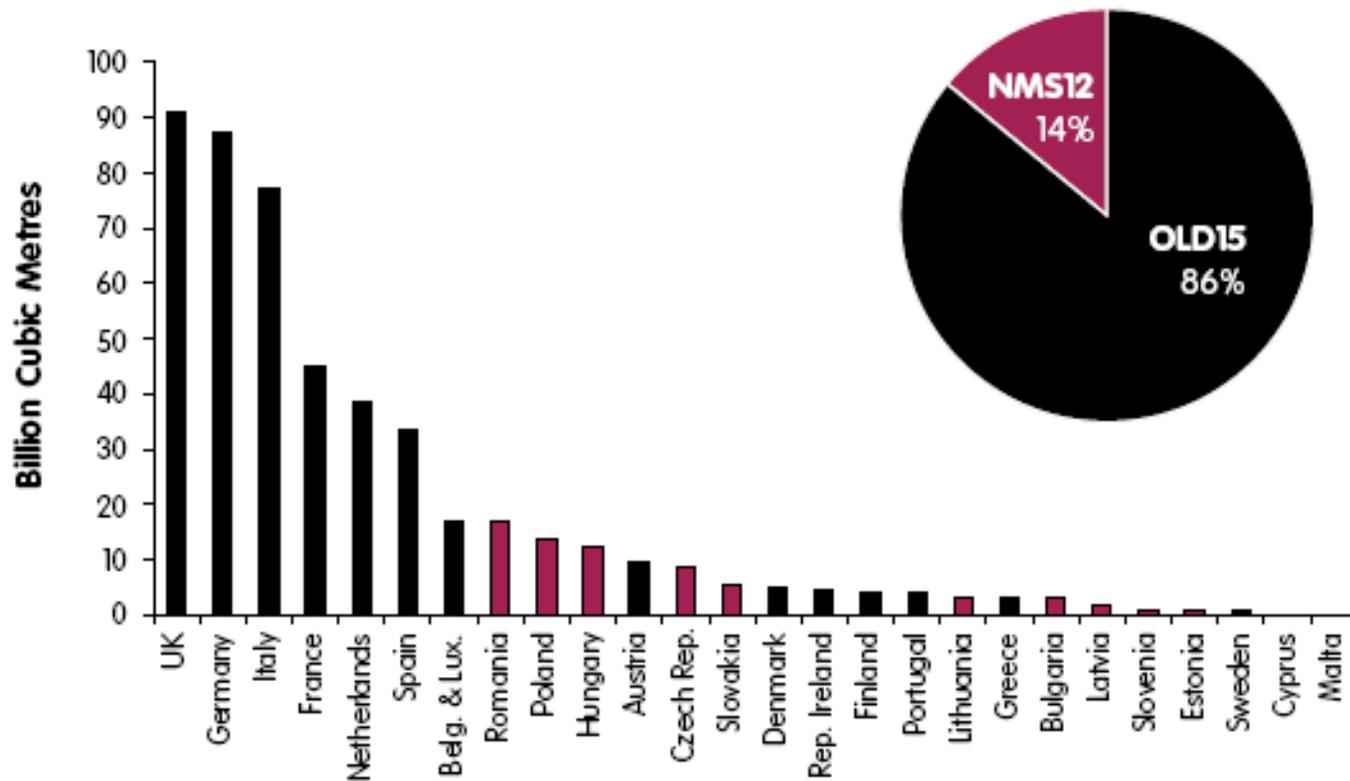
Figure 6. Gazprom's gas output (2000-2035)



Can Gazprom deliver Yamal by the early 2010s? -- No.

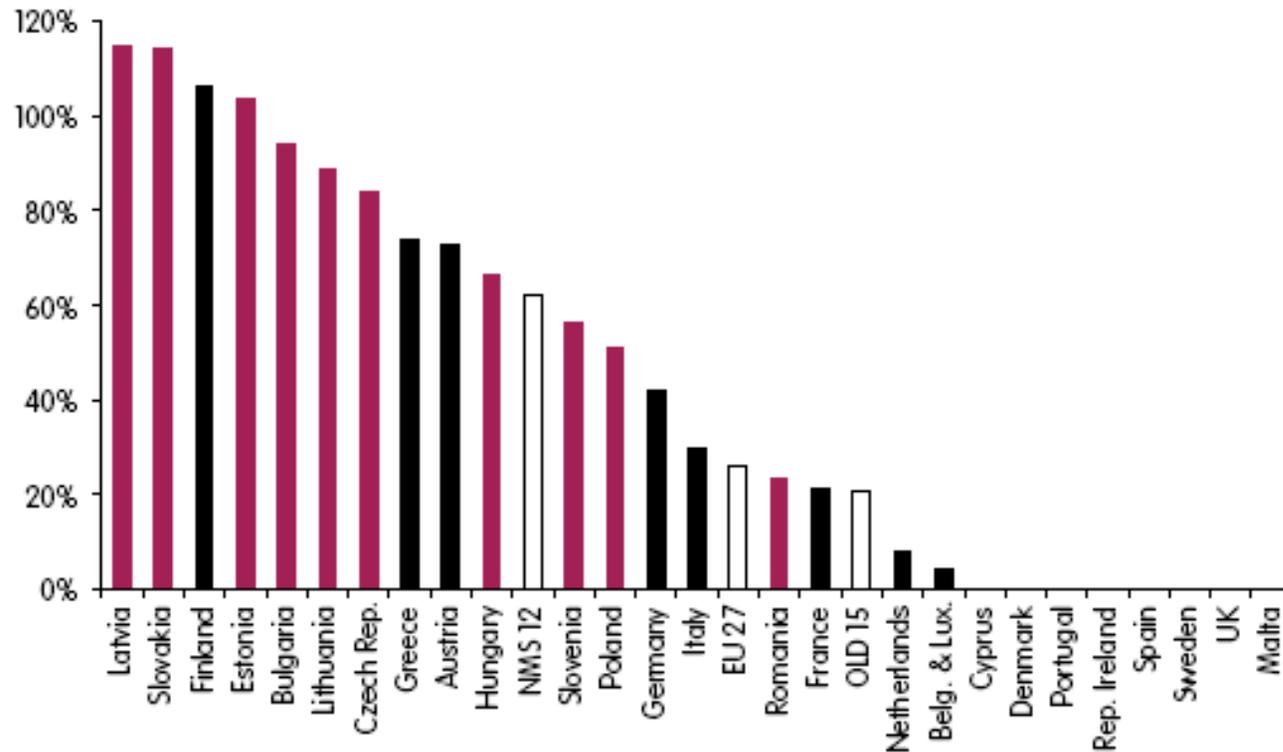
# Gas is a Western European energy source

Figure 9. Natural gas consumption in the EU (2006)

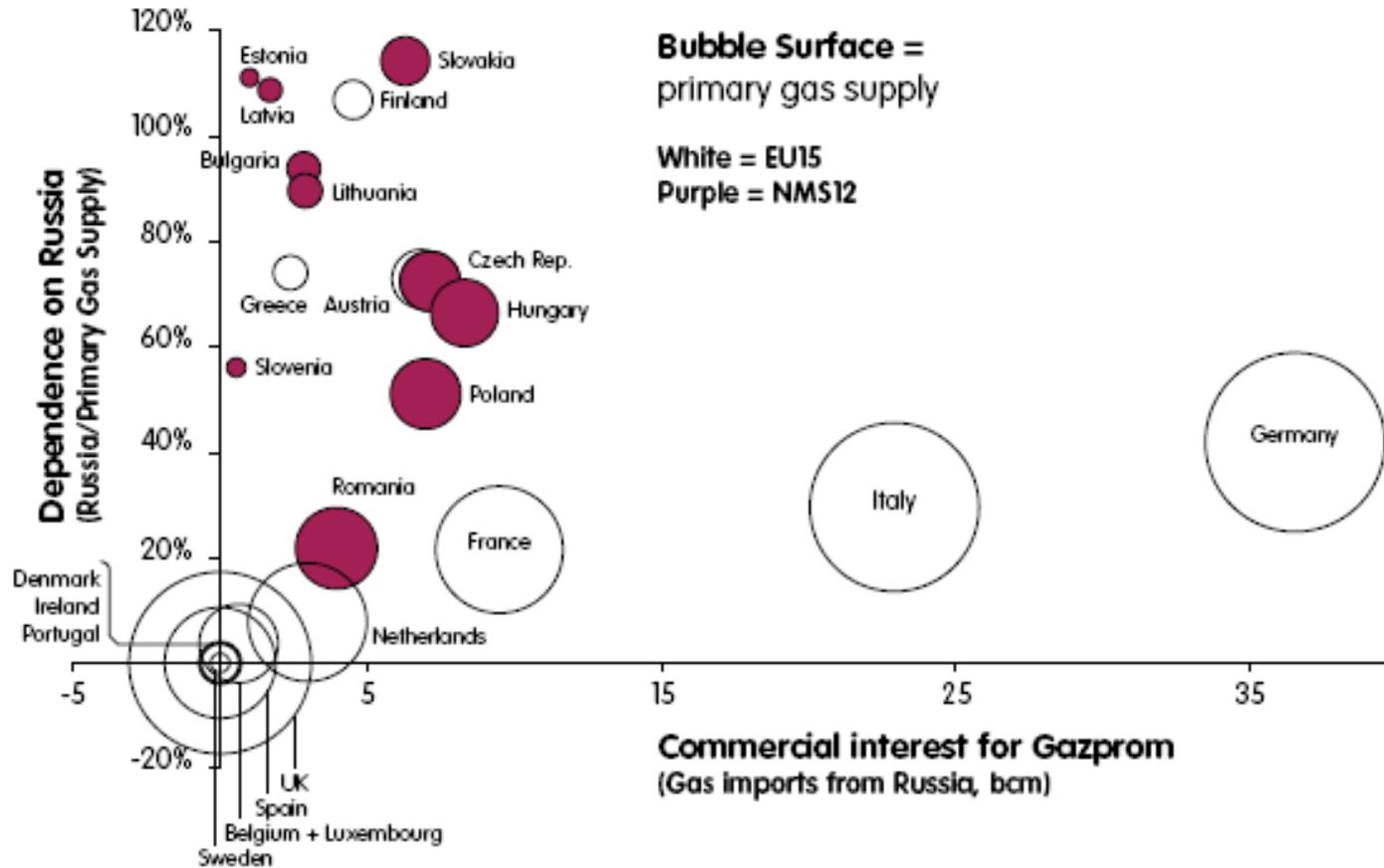


# Dependence on Russia is an Eastern problem

Figure 10. Russian gas as a share of primary gas supply (2006)



# Summing it all up: *Russia's Europe*



Source: BP Statistical Review; Eurostat

# What is the problem?

- Russian gas is divisive
  - Gas export policy merged with Moscow's European policy – *Putin's revolution*
  - Gas the ultimate divisive tool – east vs. west, “strategic partners” vs. the rest
- Energy security risk
  - Disruption of Russian supply extremely costly for most eastern member states

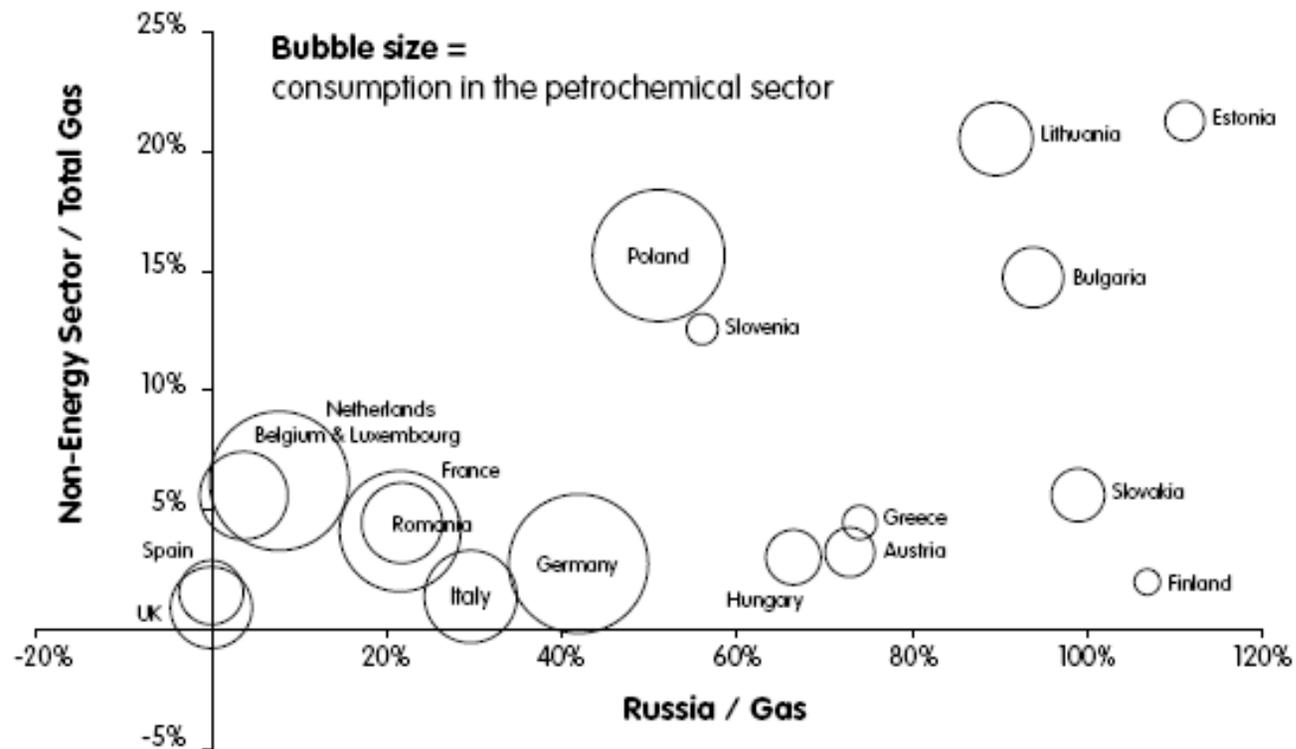
# What is the solution?

- A single, competitive EU gas market
  - Would “export” diversity eastward
  - Would spontaneously re-allocate supply in times of crisis
  - Would “Europeanise” large bilateral import contracts
- For that the EU has to:
  - Make the “3<sup>rd</sup> energy package” work
  - Enforce unbundling (including in Germany!); Develop European regulatory oversight; break LT transportation contracts
  - Subsidise interconnections? Maybe.
- Force NMS to invest in energy security
  - EU standard for the security of gas supply
  - Cost-effective way to meet a given standard is country-specific – *gas storage; back-up diesel; spare elec generation capacity...*

# Dependence vs Interruptibility (1)

Lots of interruptible consumption in highly dependent countries

Figure 14. Dependence on Russian gas versus gas consumption in the petrochemical sector (2006)

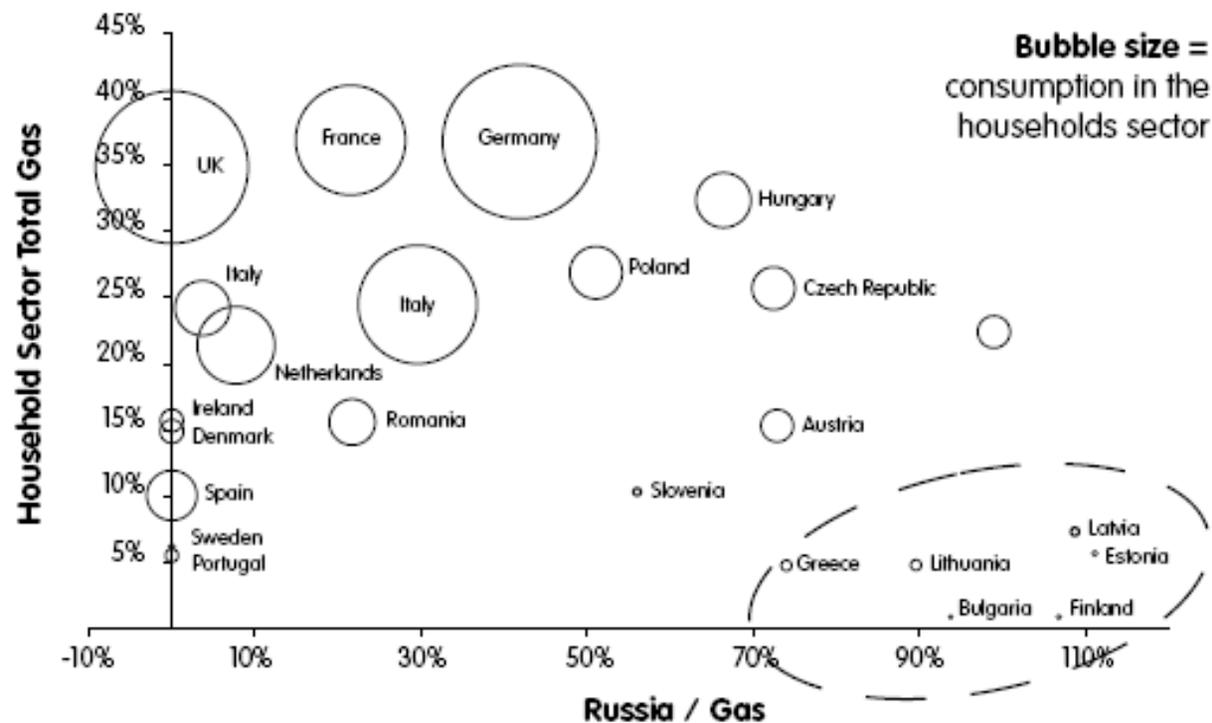


Source: BP Statistical Review; Eurostat

# Dependence vs Interruptibility (2)

Few uninterruptible consumption in highly dependent countries

Figure 15. Dependence on Russian gas versus gas consumption by households (2006)



# What about the crisis of January 09?

- Did not teach us anything new
  - Except the extent of Moscow's irresponsibility?
- Can we use the crisis to speed-up the work?
  - New Directive on gas supply security (2009)
  - New political impetus for market integration?
  - Germany's response will be key – *Embrace a European gas market or dig itself deeper into the "special relationship"?*