



**UNIVERSITY OF
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Research Group**

The EU and Russian Gas: After the Crisis

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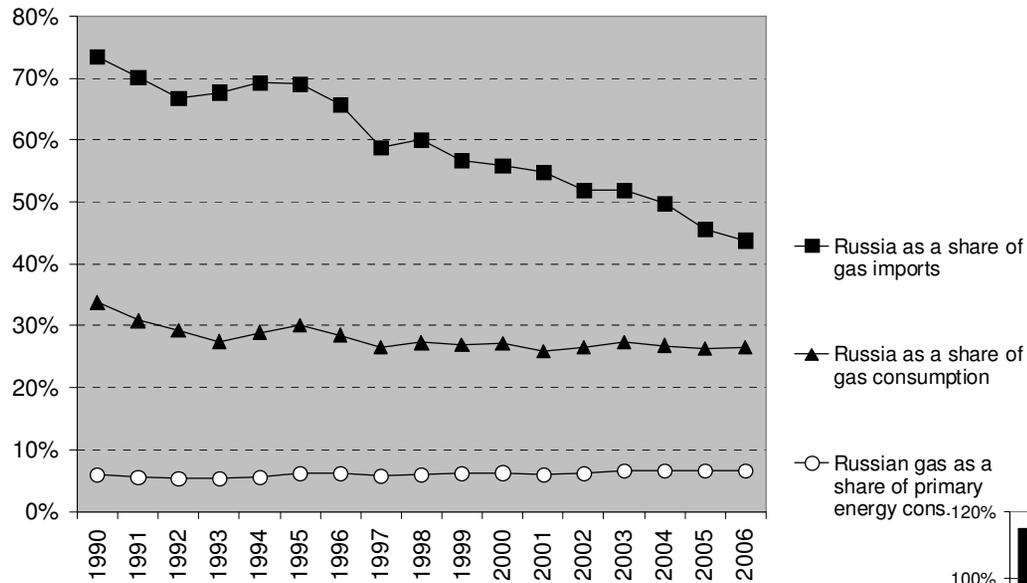


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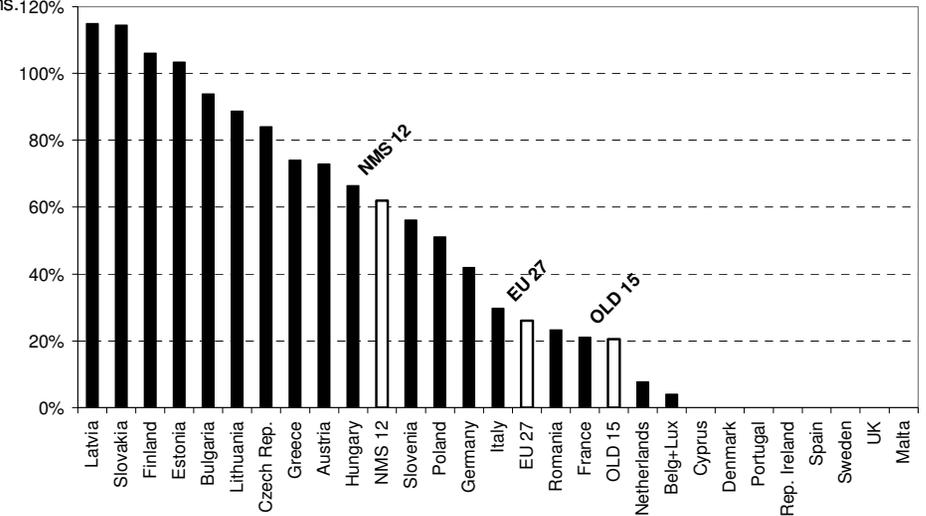
- Russian gas in Europe: in 2 slides
- The crisis: what happened and why?
- The response: markets and policy
- Conclusion: two scenarios

Russian gas in Europe

Dependence on Russia is declining – but unevenly distributed



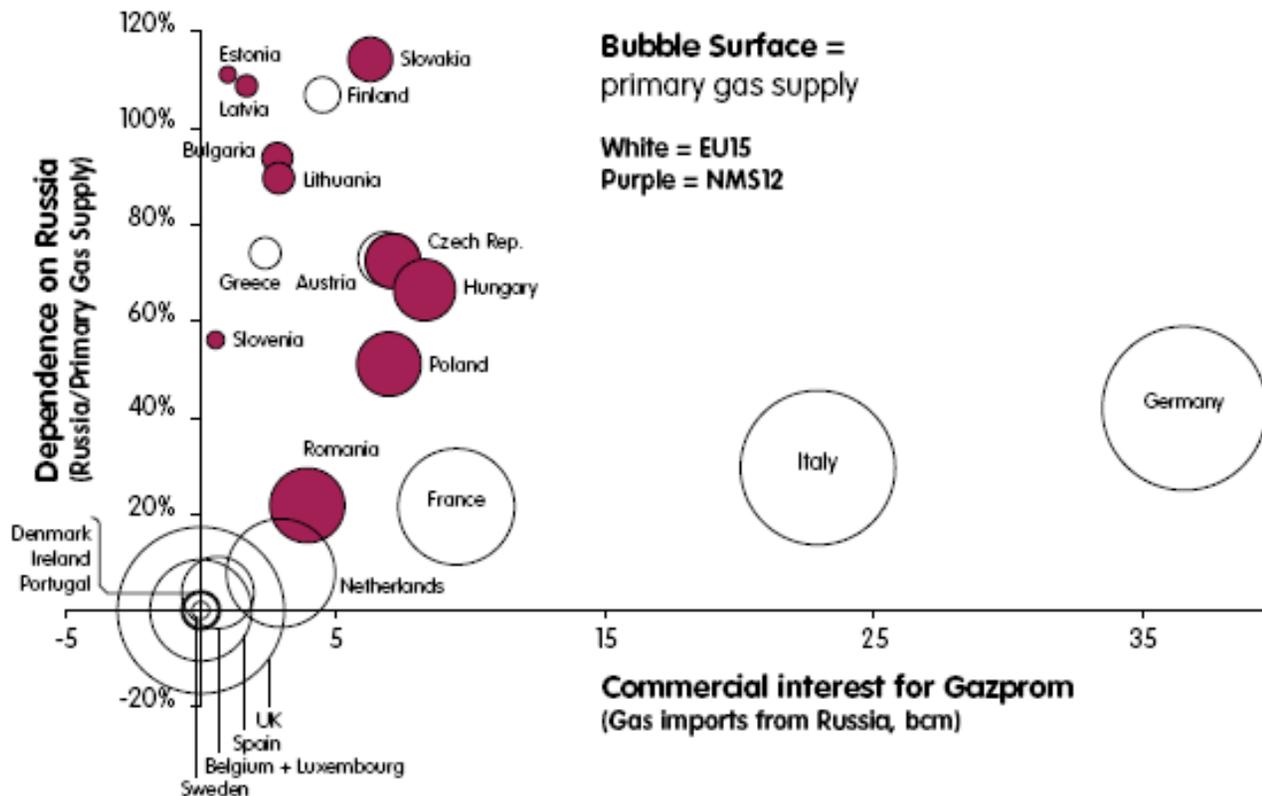
Source: Eurostat; BP Statistical Review of World Energy



Sources: BP Statistical Review; Eurostat

Russian gas in Europe (*cont'd*)

The political economy of a divisive gas relationship



Source: BP Statistical Review; Eurostat

The crisis

- Started exactly as in 2006
 - Debt; price
- Developed exactly as in 2006
 - After 2 days, Ukraine (apparently) diverted gas
- Ended exactly as in 2006
 - Compromise over price, transit fees
- The big difference: the 2 weeks in between

The crisis (*cont'd*)

- What happened?
 - When Ukraine (apparently) diverted gas, Russia shut down the entire Ukrainian corridor
 - Unheard of – The largest non-accidental disruption of international energy trade, ever
 - Most severe energy crisis in the EU's history
 - Russia hijacked its long-standing dispute with Ukraine to trigger a major crisis – *Why?*

The crisis (*cont'd*)

- Why did it happen? – *I don't know!*
 - Advancing Russian interests in Ukraine?
 - Control of the gas infrastructure
 - Shaping the political landscape ahead of election
 - Teach Europe a lesson on the bypassing project?
 - Gazprom outraged by delaying of Nord Stream, uncertainties over South Stream
 - Manage a very tight Russian gas balance?
 - Russia would have been unable to honour its European contracts this winter
 - A mix of the above?

The response – 1. *Markets and industry*

- Russian gas squeezed
 - Non-Russian pipe gas projects boosted
 - LNG glut over the coming years
 - Declining electricity consumption
 - **Absolute decline of imports from Russia possible**
 - Gas glut is very favourable to restructuration of contracts, market integration, liquidity

The response – 2. *Policy*

- Nothing new – *Just Do It!*
 - Single, competitive gas market is key to supply security – *Make the 3rd package work*
 - Europe must invest in gas security – *We need an EU gas supply security standard*
- The crisis, seen from Berlin
 - Germany is critical to effectiveness of EU response
 - Market integration; Gas security directive
 - European market or “special relationship”?

Conclusion: two scenarios

- Europe united
 - Ambitious supply security Directive
 - New political dynamics for market integration
 - Ambitious association agreement with Ukraine – energy conditionality
- Europe further divided
 - Row over bypassing pipelines deepens
 - German resistance to market integration strengthens
 - No ambitious agreement with Ukraine
 - Eastern Europe re-opens the climate package & the reactor closure deals