



**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

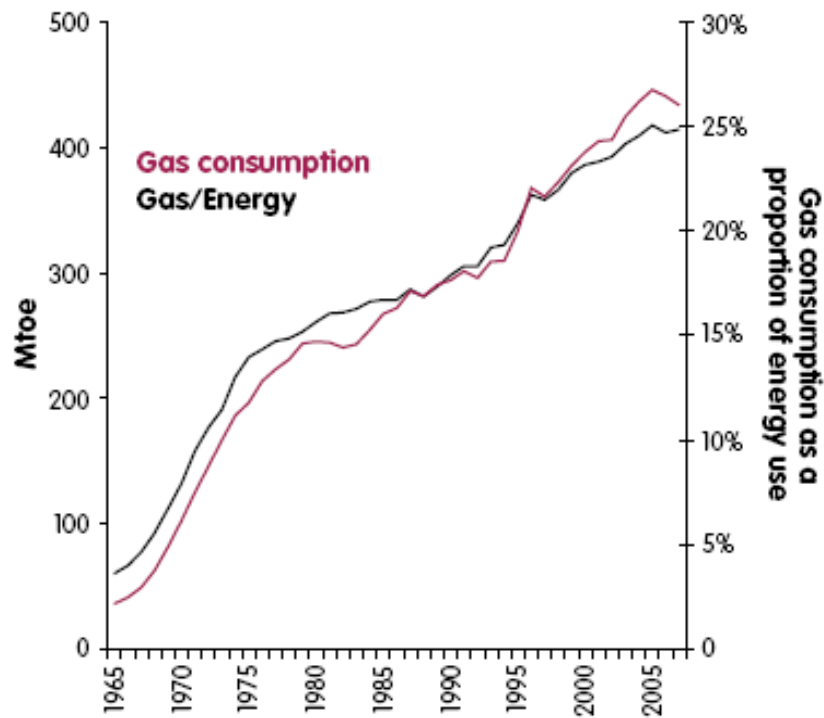


Main messages

- 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

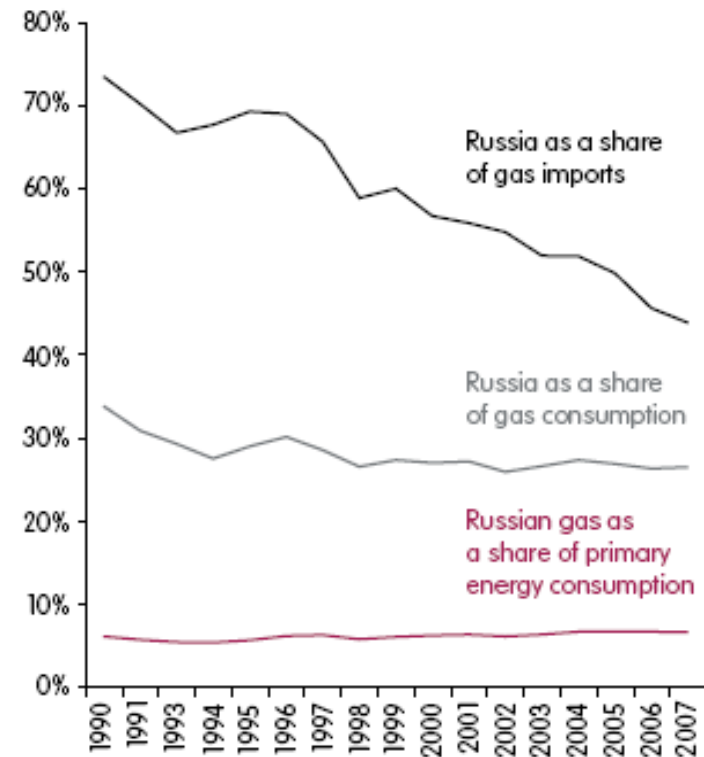
Europe's energy: Gas up, Russia down

Figure 1. EU27 gas consumption, 1965-2007



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

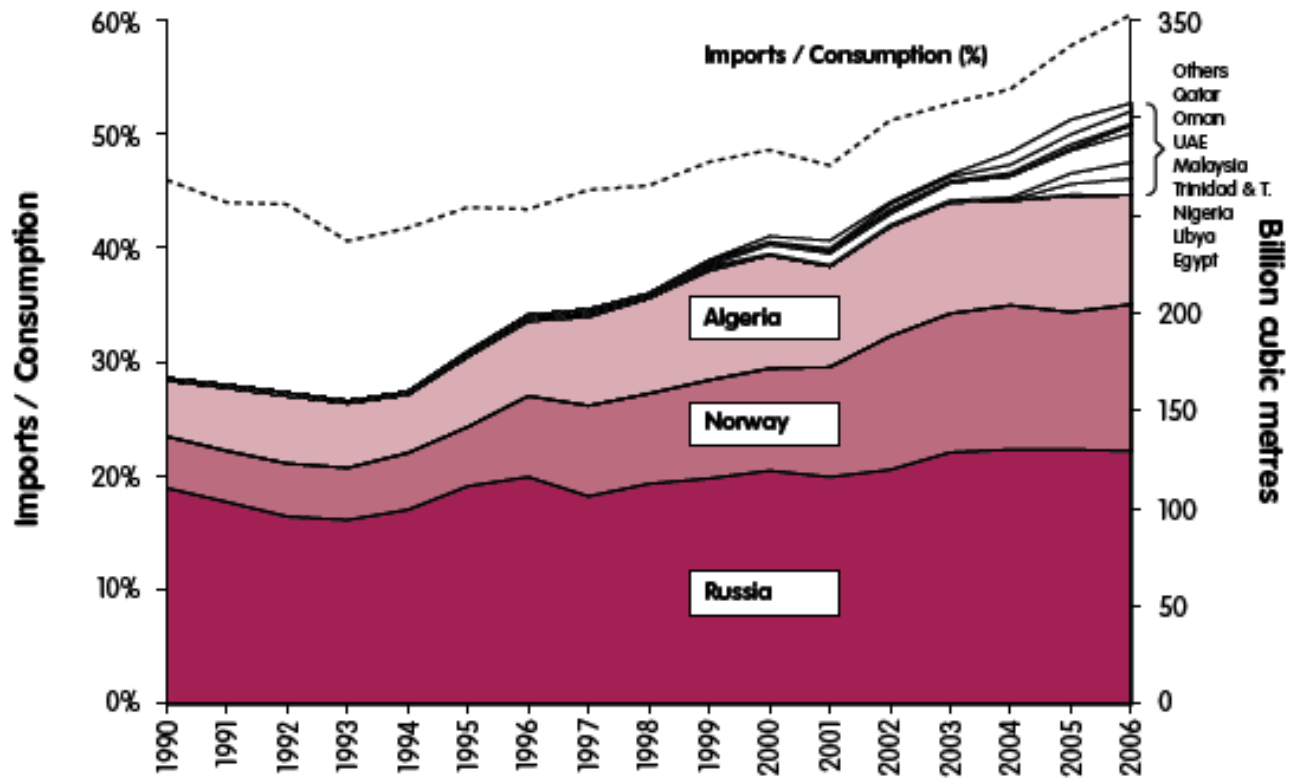
Figure 5. EU27 dependence on Russian gas, 1990-2006



Source: Eurostat; BP Statistical Review of World Energy

Gas supply: 20 years of diversification

Figure 4. EU27 gas imports, 1990-2006

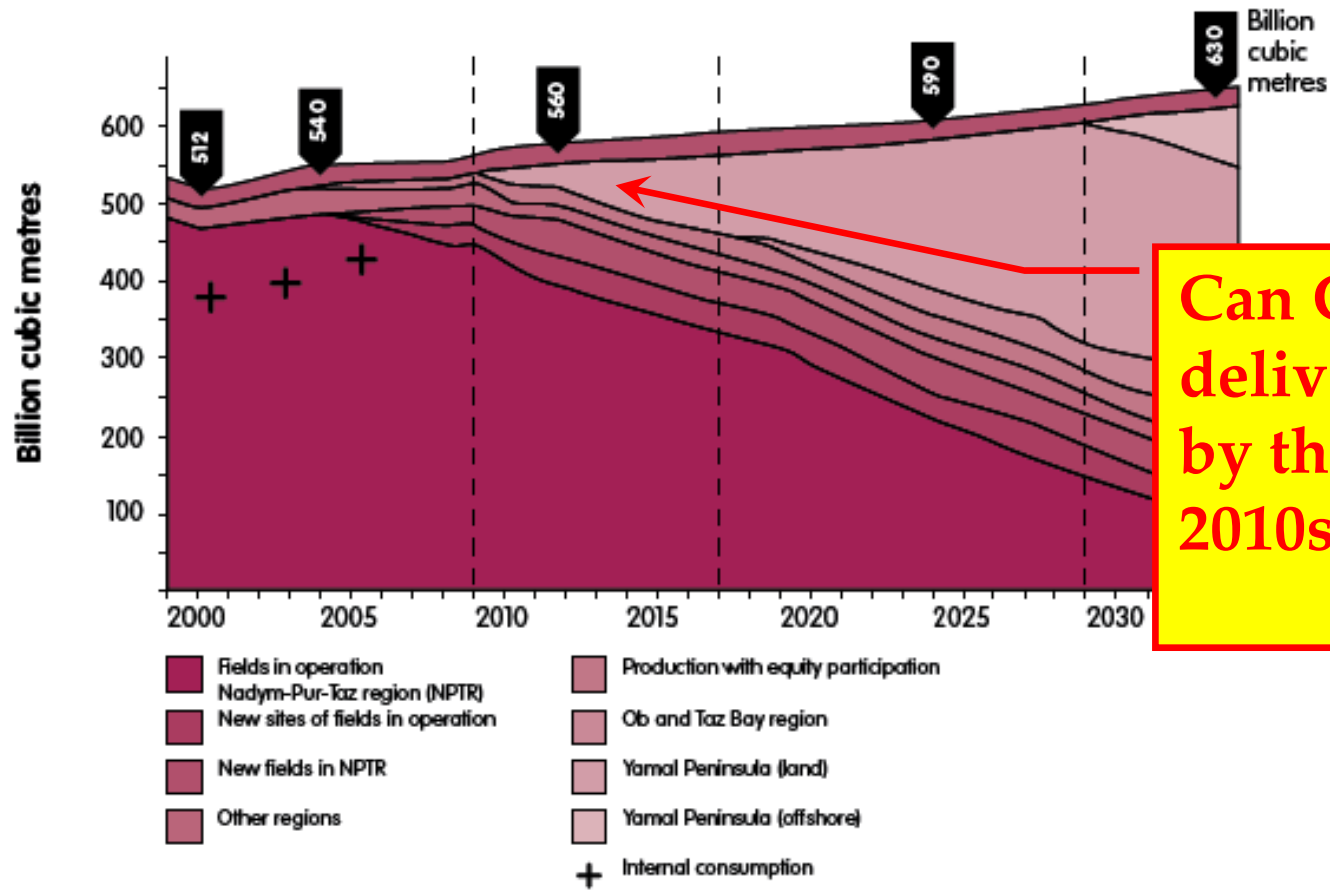


Source: BP Statistical Review; Eurostat

More Russian gas for Europe?

Gazprom's data says: *highly unlikely.*

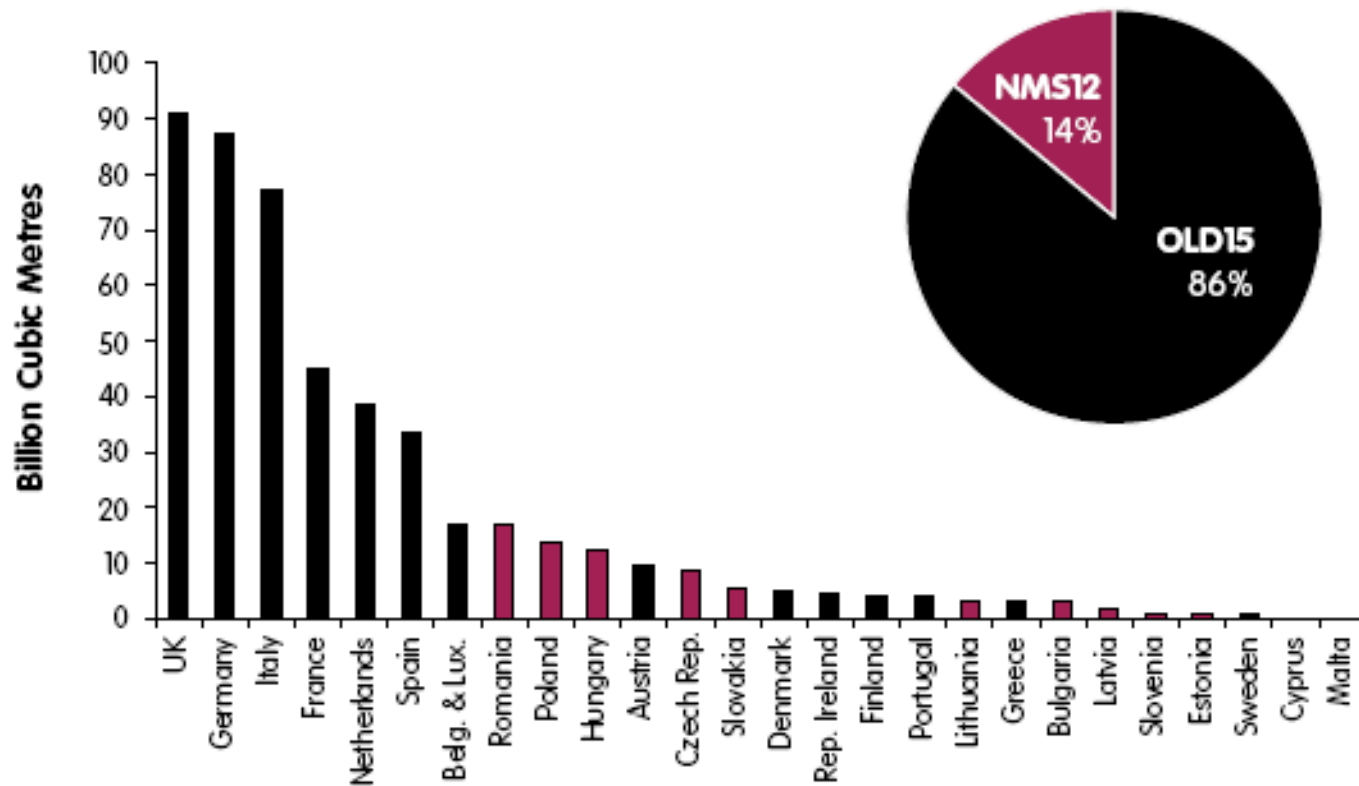
Figure 6. Gazprom's gas output (2000-2035)



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

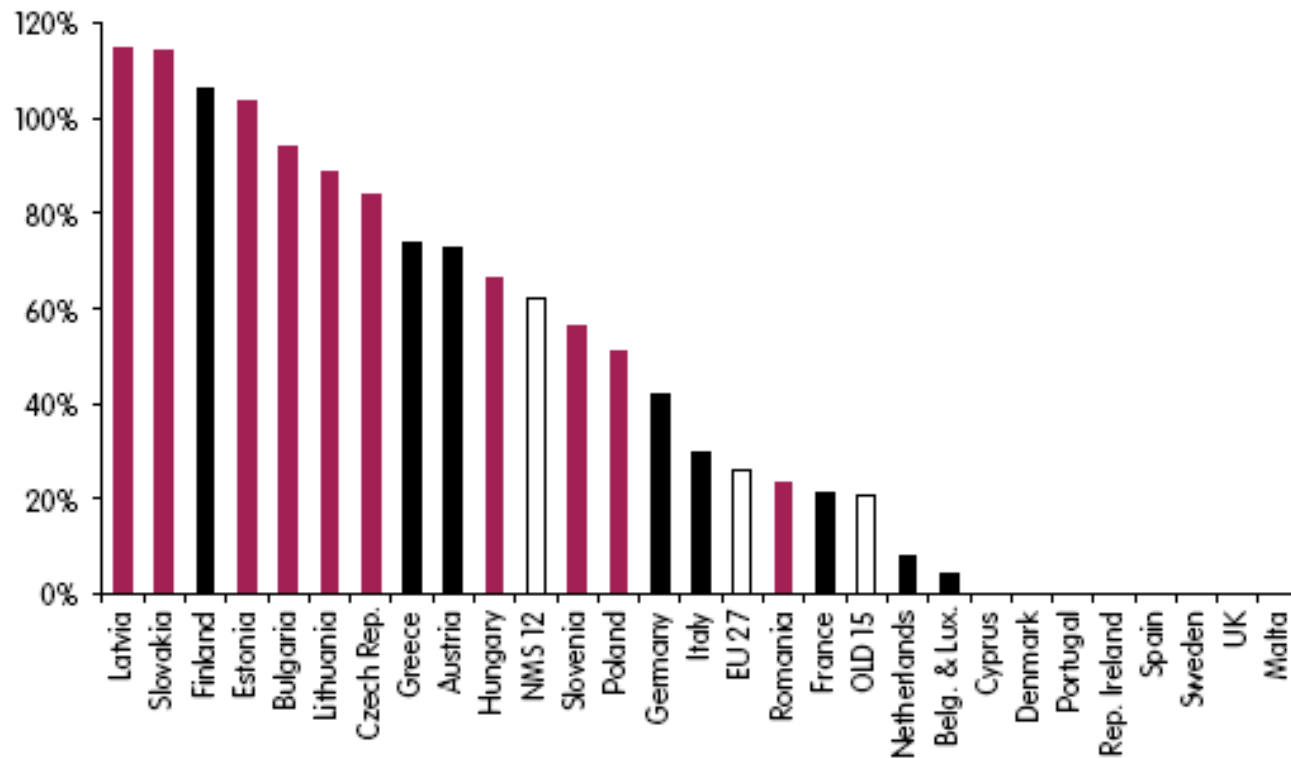
Gas is a Western European energy source

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

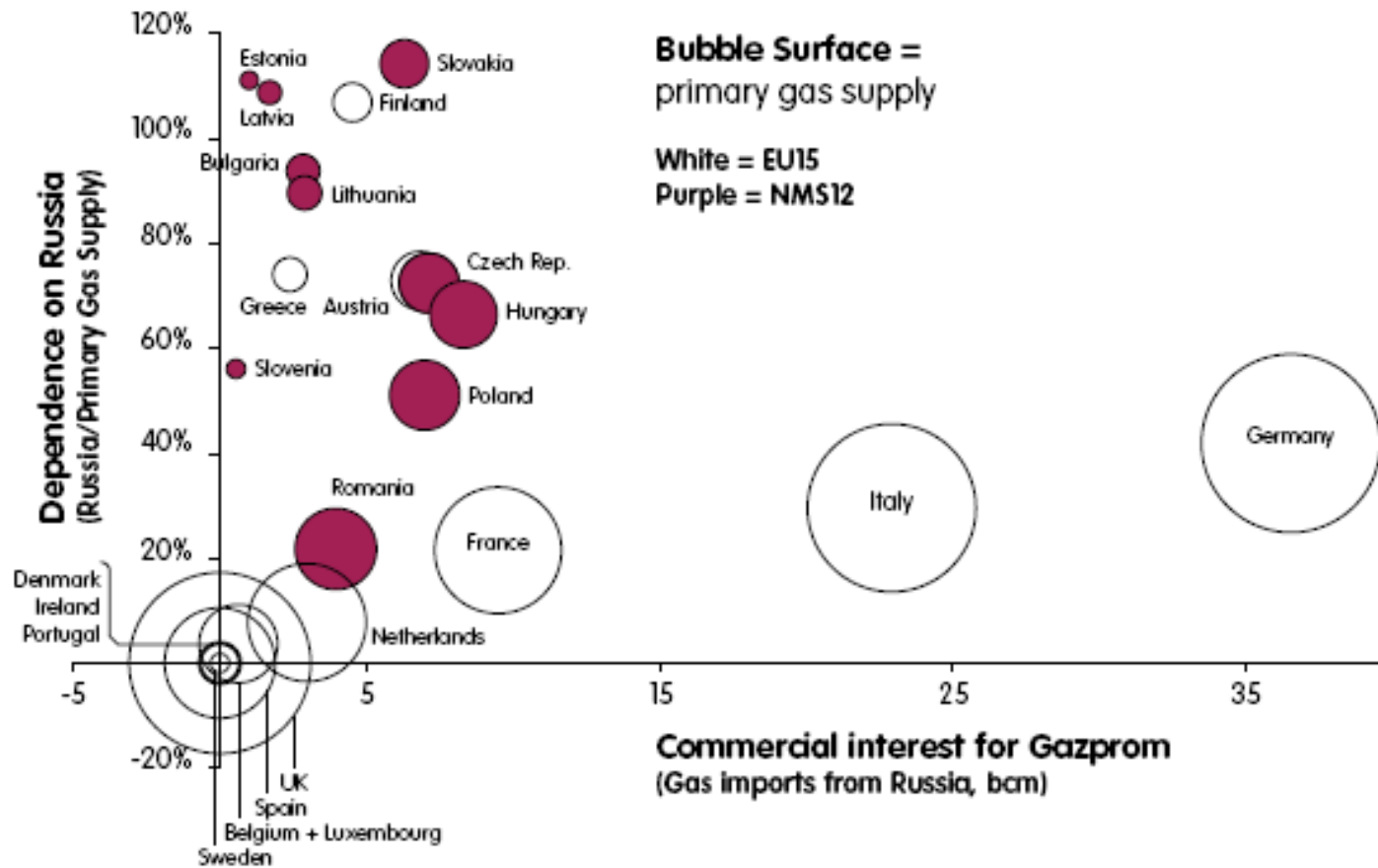


Dependence on Russia is an Eastern problem

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

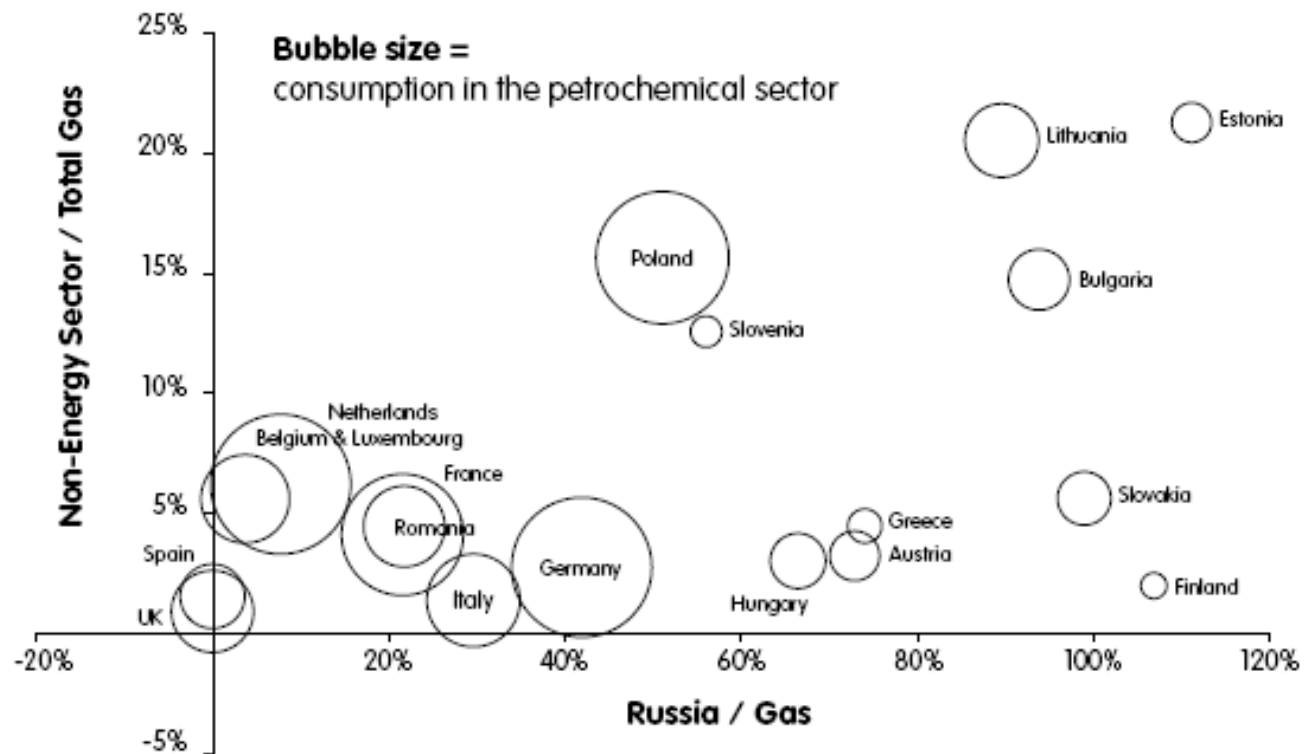
What is the solution?

- 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 “3rd 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)

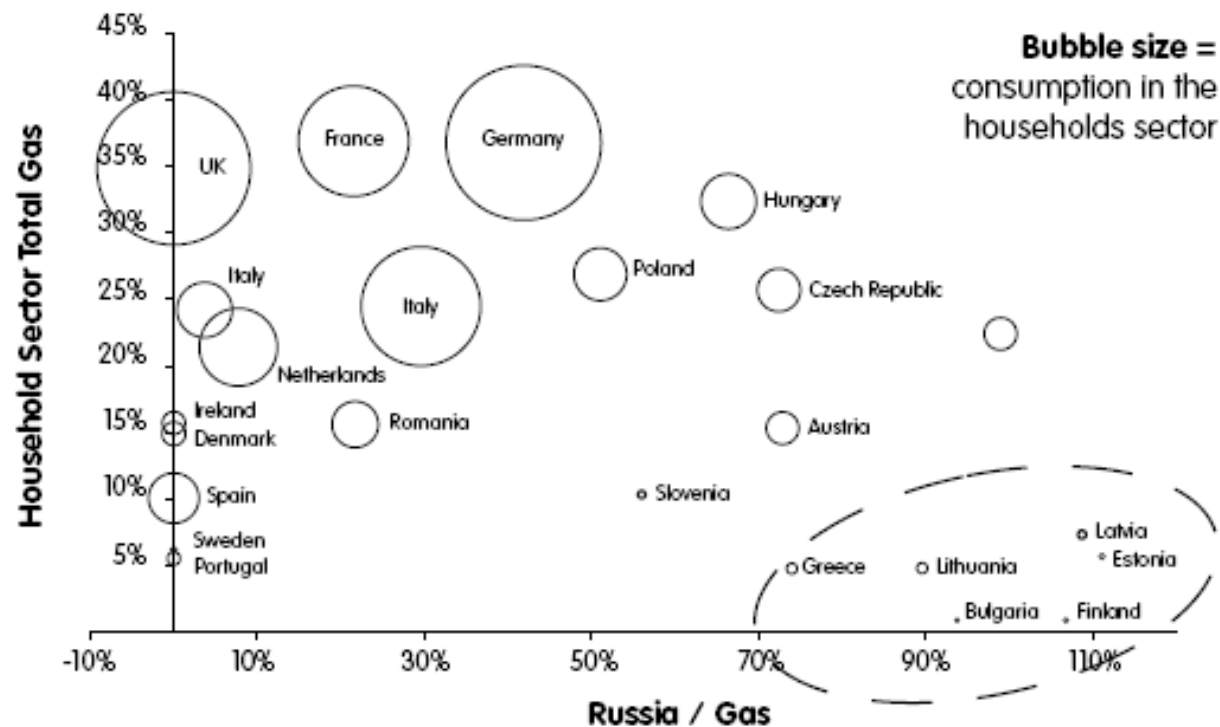


Source: BP Statistical Review; Eurostat

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"?*