

Russian energy expansion in Europe and the European energy security

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Nice, November 18 2005

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What's new with Russian energy agenda in Europe?

- Downstream acquisitions in gas, power, oil
- New infrastructure projects
- (Possibly) increasing supplies of Russian energy
- Abandoned Murmansk oil pipeline project = Russia will continue to remain mostly European oil supplier

The upside of Russian expansion

Market integration

- Direct Russian presence makes European markets more competitive
- An opportunity to adapt Russian businesses to European business culture, increase transparency of their operations

Direct link to energy resource producers

- Appearance of companies with their own resource portfolio on the European market
- Mitigation of risks associated with 'purely downstream' nature of numerous European energy companies

More opportunity for access to Russian resources

- An opportunity for participation of European energy companies in Russian oil & gas upstream and electricity businesses through cross-ownership schemes

But there's also the downside

Politics

- Concerns of supply sabotage for political reasons
- The world have already seen examples of that behavior in Eastern Europe and former USSR (Ukraine, Moldova, Georgia, Baltic States)
- Increasing state's interference in energy businesses and restoration of Soviet foreign policy mentality raises the level of these concerns

Reliability of supply concerns

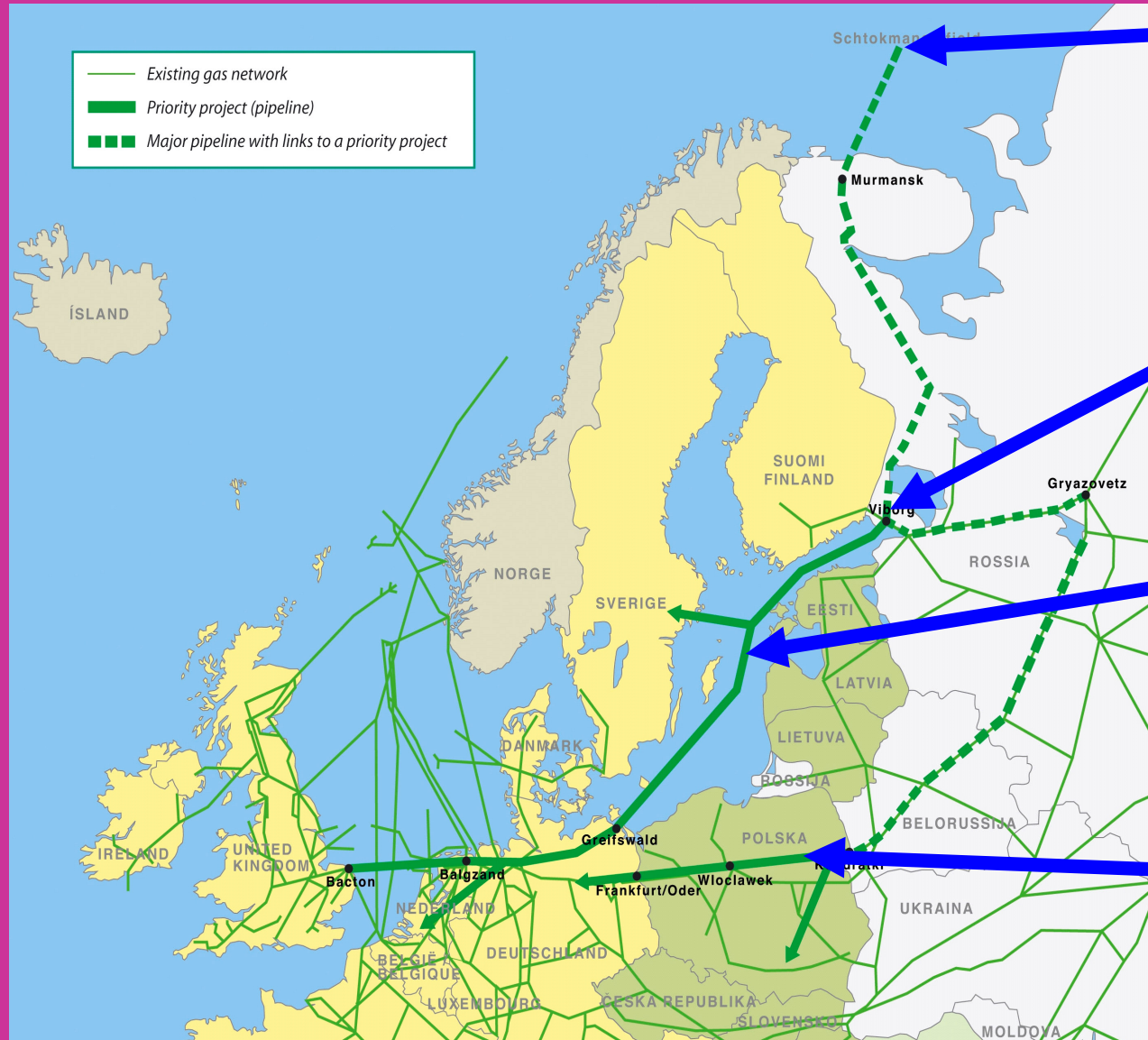
- Will the Russian upstream oil and gas business, blocked for foreign investors and led by state-dominated companies, be able to sustain increasing (maintain current level of) energy supplies to Europe?

Inefficiency

- In Russia, the domination of state-linked inefficient companies is increasing
- They are establishing control over more efficient private companies, worsening the efficiency
- State-influenced infrastructure solutions are inefficient, efficient private infrastructure solutions are blocked

**It's easy to see that
the opportunities are hypothetical,
while the risks are real**

The gas: new European projects of Gazprom



Map: <http://www.balticgas.org>

Shtokman gas field

- 3200 bcm gas reserves (all Russian ABC1 grade)
- On-stream introduction in 2012
- Peak production 21 bcm/year (first stage)

Ust Luga (Primorsk?) LNG plant/terminal

- 5mmt annual capacity
- Commencement in 2009-2010
- Gas source unknown

Baltic gas pipeline

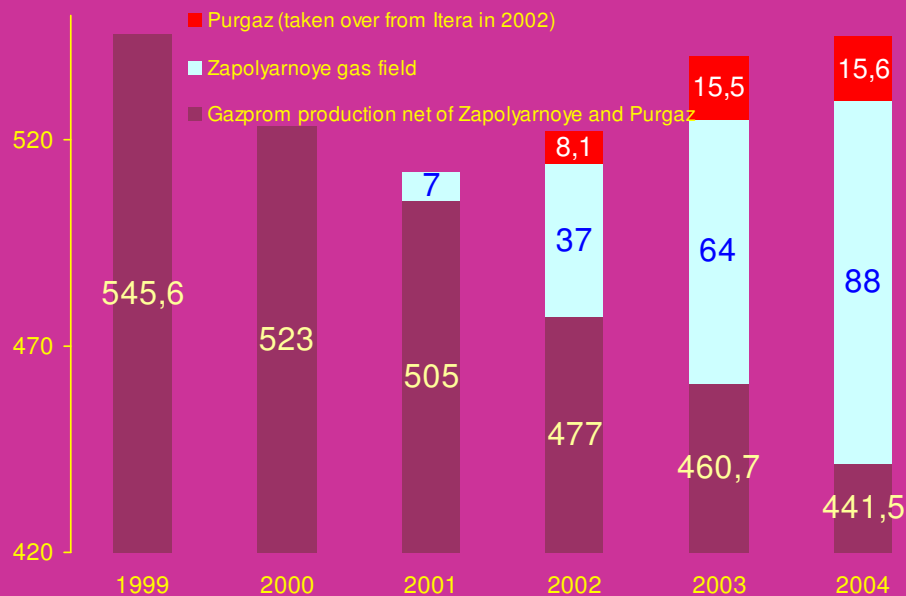
- 27 bcm annual capacity at first stage, 55 bcm total
- Commencement in 2010
- Gas source - primarily Yuzhno-Russkoye gas field

Yamal-Europe

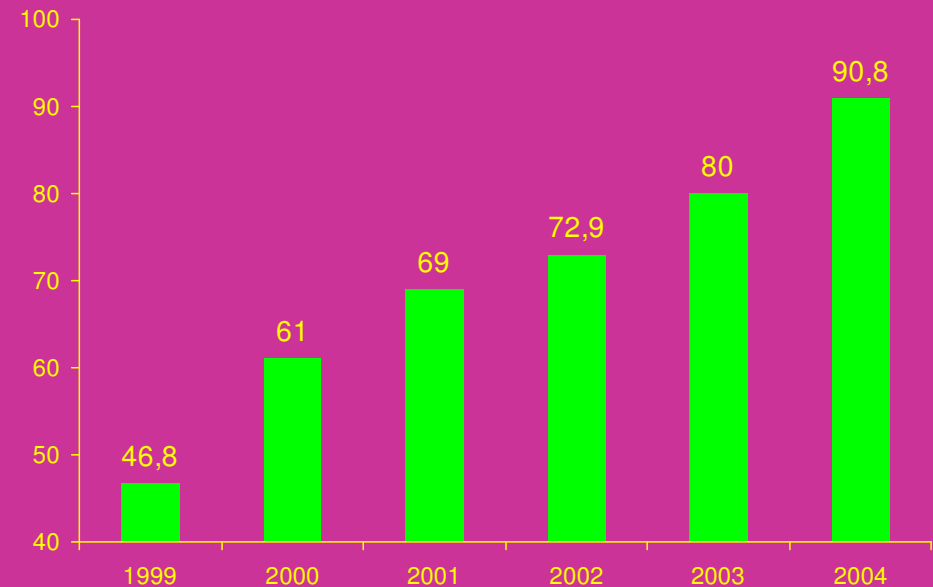
- Next stages given up?

Russian gas sector in limbo: an endless wait for reform?

Gas production by Gazprom, 1999-2004
in bcm

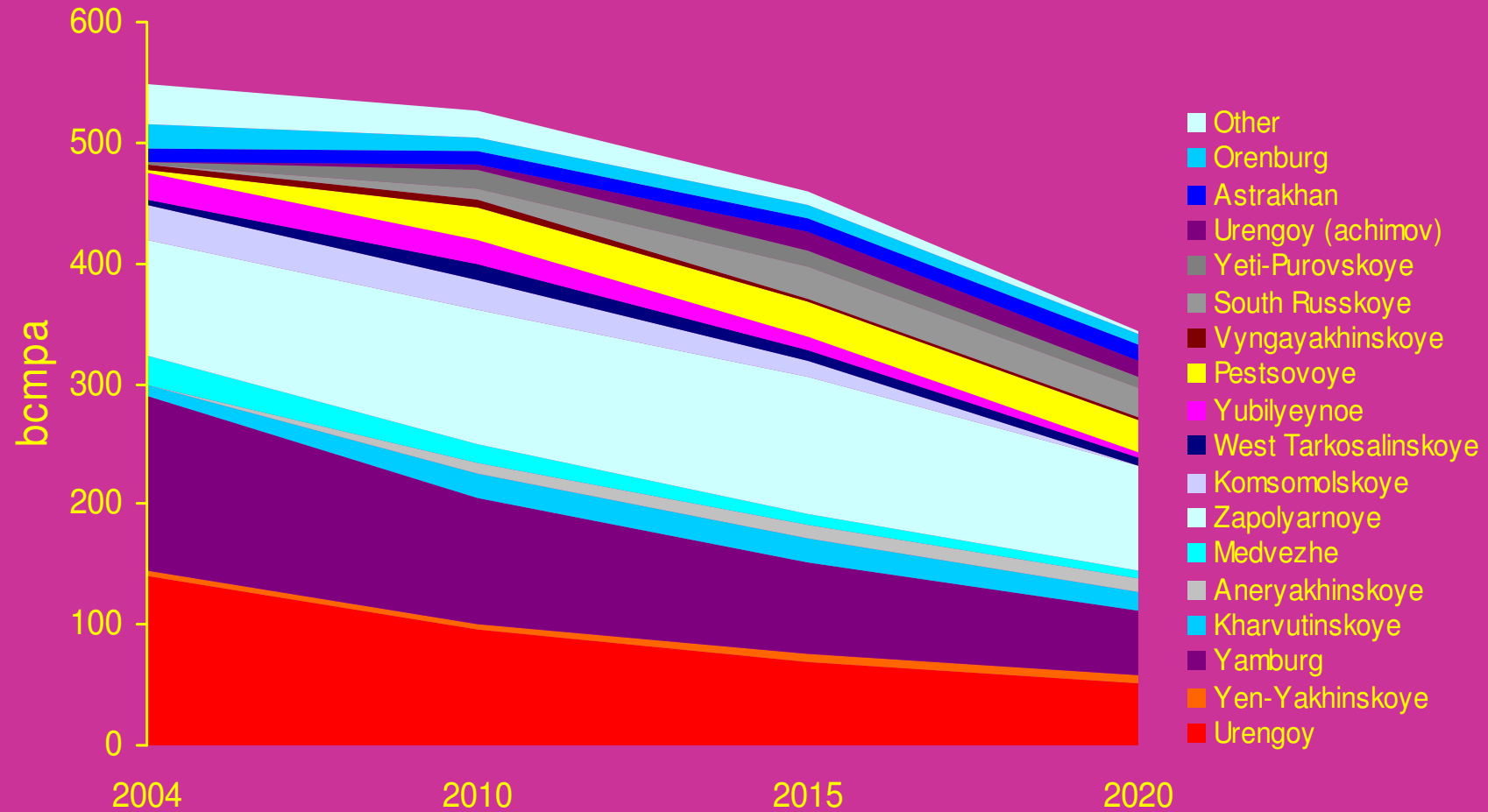


Gas production by Russian independent
gas producers, 1999-2004 in bcm



- ✓ Despite on-stream introduction of the last senoman supergiant field – Zapolyarnoye – and unexpectedly high gas export revenues, Gazprom was still not able to beat 1999 gas production levels
- ✓ However, Russian independent gas producers, with greenfield projects and blocked access to exports, had managed to double gas production in 6 years

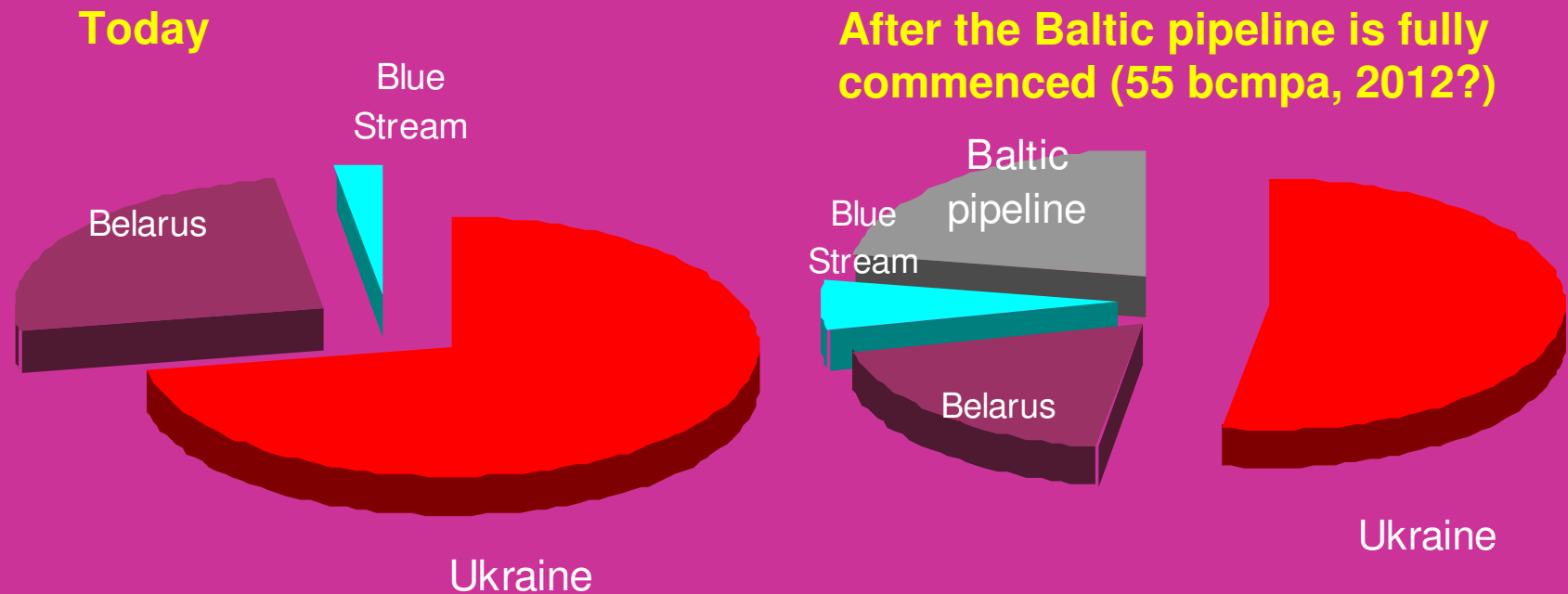
Gas production on Gazprom's mature gas fields is rapidly declining



Source: Jonathan Stern, Oxford Institute for Energy Studies, 'The future of Russian gas and Gazprom', 2005

The Baltic gas pipeline: will Russia be able to bypass Ukraine?

The structure of Russian gas export corridors



Ukraine will still serve as the dominant Russia's export transit corridor for Central, Eastern and Southern European markets, no matter what

Yamal-Europe expansion: one more opportunity missed

- ✓ After first line (33 bcm/year) commencement is accomplished next year, further extension of Yamal-Europe capacity (up to 70 bcm/year) may be given up
- ✓ The reason is a combination of political problems with both Belarus and Poland:
 - Gazprom had failed to establish control over Beltransgaz and is in strong favor of the Baltic pipeline which allows to bypass post-Soviet transit countries (including Belarus)
 - Gazprom had failed to agree with Poland the increase of Gazprom's equity stake in EuroPolGas to 50% and ensure favorable transit rates on the Polish territory

Russia had blocked the signing of Transit Protocol to Energy Charter 2 years ago.

Did we benefit from that?

- ✓ Ukrainian energy transit challenges
- ✓ Belarus energy transit challenges
- ✓ Poland energy transit challenges
- ✓ Baltic states energy transit challenges
- ✓ We are building a gas pipeline through the sea.
What's next – we're going to build them in the air?
- ✓ Isn't the interstate legal transit regulation regime a better solution?

Until the great extent of centralization, state dominance and imperial foreign policy ambitions will influence the Russian energy sector, Euro-Russian energy integration will not benefit European energy security