European Union and Russia Energy Relations: What Lies Ahead?

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1. Energy trade cements mutual dependences

- Russia plays a key role for global energy security:
  - Russia is the world's second largest liquids producer at record high levels (11.3 mb/d in 2016);
  - Russia is the first exporter of crude and products ;
  - Russia is the world's first gas exporter with about 200 bcm/y, number set to progressively increase over the next ten years ;
- Russia covers 38 % of EU's gas imports in 2016 (rank 1), Russia exports 95 % of its gas to Europe currently ; Gas exports to the EU were worth around USD 25 billion in 2016; EU companies reliable buyers which is key to Gazprom's ability to finance domestic supplies to the residential sector and notably new infrastructure developments to China which matter for global supply security;
- Russia will remain Europe's key gas supplier in the long term and Europe will remain Russia's most important export market in the long term, in spite of the diversification to Asia on Russia's side and of growing competition from LNG and decarbonization policies in Europe. Gas supplies to Asia can be expected to represent around 20 % of total Russian gas exports by 2025 (Yamal LNG, Sakhalin-2 and Power of Siberia system);
- Russia is by far the EU's largest liquids supplier: 27 % of EU's imports of crude oil/product come from Russia, around 18 % of oil or products imported in the EU are supplied by Rosneft. Oil and product exports to Europe from Russia are worth around EUR 50 billion in 2016.
- About 60 % of Russia's oil and products are exported to OECD-Europe, yet the share of Asia is growing. In the long term, Europe will remain Russia's key export market for oil and products, since the share of West Siberian fields in total Russian production will continue to be dominant, while progressively reducing though as East Siberian and Arctic production increase;
- Last but not least, Russia covers 34 % of EU's coal imports in 2016.

2. Energy policies increasingly differ

- EU-28 represents 23 % of the world economy (in USD nominal GDP) and 9.6 % of global CO2 emissions ;
- Russia represents 2 % of world economy yet 5 % of CO2 emissions = strong carbon intensity ;

- EU's INDC pledges to decrease CO2 emissions by 40 % from 1990 level by 2030 (currently @-24%) and possibly by 80 % by 2050 ;
- Russia pledges to decrease CO2 emissions by 25-30 % by 2030 from 1990 level with extended LULUF inclusion (currently already @-30%) but Russia is delaying the ratification of the Paris Agreement on climate :

→ Russia is the largest country on earth and already exposed to climate change impacts (fires, heat waves, storms, flooding, viruses), yet takes little policy steps to decrease emissions further;
→ EU has started its energy transition process (Energy Union) to reduce GHG emissions and strengthen energy security : market integration&competition, EE, renewables, decarbonizing power generation, less fossil fuel consumption and after 2030, dramatic reduction unavoidable to achieve 80 % reduction of CO2 emissions, reform of ETS, new tax proposals, etc ;

- Recent energy sector&policy developments in Russia have only little CO2 mitigation effects :
  - Start of renewable deployment but 5.5 GW renewable target by 2024 is modest;
  - Still significant gas flaring amidst improvement of associated gas utilization;
  - Little progress in EE deployment ;
  - Refinery sector modernization;
  - Diversification and increase of oil exports to Asia, East Siberian oil production development, new export infrastructure in Primorsk and Ust Luga while Druzhba system still important ;
  - LNG developments, partial liberalization of domestic pipeline access and rise of non-Gazprom production, new gas production center in Yamal, new export pipelines ;
  - Progressive yet insufficient power generation modernization.

3. **Conflicts and disputes in energy**

- Western restrictive measures (personal, financial, deep offshore, Arctic, Bazhenov) ;
- Gazprom's commercial strategy, DG Competition anti-trust inquiry against Gazprom : pricing and contracts ;
- OPAL regulation ;
- Third energy package and reciprocity, Russia withdrawing from ECT ;
- Gas transportation systems : Nord Stream 2, South Stream/Turkstream, Ukrainian transit ;
- Freeze of EU-Russia energy dialogue (bilateral discussions and business level relations continue though);
- EBRD/EIB stop lending to Russia ;
- Kaliningrad integration with the EU power market/ Baltic states integration in EU power market ;
- Global governance: Russia part of GECF, sides with OPEC… EU backs the IEA and IRENA (Russia also member of the latter).

4. **Selection of successful energy cooperation/projects between Russia and Europe**

- Nord Stream ;
- Yamal LNG ;
- Gas exports currently at record level, Ukrainian system fully reliable in spite of war and highly used, currently very competitive Russian gas prices in Europe as Gazprom's strategy has been adaptive ;
- Downstream acquisitions by Gazprom in Europe : Wingas, storage assets ;
- Rosneft has a stronger share in German refinery market, Lukoil strong presence in refinery and retail (Bulgaria, Belgium notably) ;
- Investments in Russia's power sector under the DPM mechanism (Fortun, Eon, etc), more recently into Russia's nascent renewable energy sector ;
- NPP investment projects in Finland, Hungary ;
- Russian companies get exploration licenses in Norway ;
- Upstream JV in Russia: Wintershall/Gazprom, Shell/Gazpromneft, Shell/Gazprom, OMV/Gazprom, Statoil/Rosneft, BP/Rosneft, ENI/Rosneft, etc.
- Energy service companies are actives…

5. **Priorities and opportunities for energy cooperation**

- Climate mitigation policies ;
- Gas trade: future of Ukraine's transportation role must be solved in 2018 because 2019 too late (power vacuum in Kiev and Brussels?);
- LNG investments in Russia ;
- Gas for transportation in Europe and Russia, maritime and land transport opportunities : bunkering, CNG ;
- Arctic : environmental protection and safety ;
- Gas flaring reduction in Africa, the US and Russia ;
- Oil production : enhanced oil recovery, development of hard to recover resources ;
- Coal : clean coal technologies, CCS ;
- EE and renewable investments ;
- District heating systems investments as long delayed market reform in Russia will be implemented in coming years ;
- Nuclear : safety, waste management, decommissioning ;
- Global energy governance :
    - Push for gas and renewable energy sources in emerging economies to displace coal, such as through new multilateral banks,
    - Cooperation in developing cleaner cities,
    - Developing Africa's gas potential for domestic consumption/improving energy access.

Thank you for your attention.