EU – Russia gas relations at crossroads

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EU – Russia mutual dependency on energy

• Russia is a main exporter of oil and coal towards Europe and the largest supplier of gas to EU
• Europe is the main market for Russia for oil and gas.
• Historical relation built on long term gas contracts.
• Main drivers of tensions in EU-Russia gas relations:
  • The Ukrainian transit (2006, 2009, 2014)
  • European energy policy based on diversification of suppliers, increased competition, development of internal energy market…
EU dependency on Russian gas

Source: Cedigaz

Source: Gas Infrastructures Europe, Reuters
EU strategy: strengthening the resilience of the EU gas system

Revision of the security of supply regulation

Stress test
- Remove barriers to market functioning
- Ensure implementation of the SoS Regulation
- Coordinating measures
- Reverse Flows Exemptions, Investment projects

Mitigation - Prevention
- Voluntary demand aggregation mechanisms for collective purchasing of gas during a crisis

Implementation 994/2010
- Solidarity
- Cross-MS issues, parallel functioning of markets

Public consultation
- Preference for market-based measures
- Need for harmonization
- Regional differentiation?

Energy Union
- Common crisis management
- Preventive and emergency plans at regional and EU level
- Solidarity has to be strengthened

Integrated Energy Market

Energy Infrastructure Package
EU strategy: Energy Diplomacy 2.0

• Strengthen energy partnerships with key producing and transit countries

• A reality check: Options for diversification of EU gas supplies on the medium term
  – Maximising existing supplies?
  – Building the Southern gas corridor?
  – LNG as a main driver for diversification but dependent on higher-paying markets.
EU Strategy: the main hurdles
The asymmetric situation of the EU gas market

EU assessed gas suppliers sourcing prices – 2014 yearly average (€/MWh)

Source: ACER Annual monitoring report, 2015
EU wholesale gas prices

Source: Quarterly report on EU gas market, Q3 2015
A shift in the Russian strategy

• Gazprom’s adaptation to the changing EU gas environment since 2009
  – Dealing with the decrease of EU gas demand
  – Renegotiation of long term contracts integrating a higher share of EU spot prices.
  – The take-or-pay level of many long term contracts was reduced to lowest levels
  – A progressive shift towards Asian markets accelerated by the Ukrainian crisis, more difficult than expected.

• A new strategy in 2015?
  – South Stream / Turkstream / Nord Stream II
  – A new pricing model for EU: auctions, increased hub pricing…
The Russian strategy

Russia and China: An uneasy friendship

Power of Siberia

Source: The Economist

Source: Gazprom
Gazprom and the EU legislation: is cohabitation finally possible?

Antitrust case

Source: The Economist

OPAL exemption

Source: Energy post
Gazprom position in a low oil prices and Western sanctions environment

- Gazprom weakening position on domestic market
  - Contraction of Russian domestic gas demand
  - Decrease of the CIS imports of Russian gas
  - Declining output in 2015: 409.6 bcm; -5.2% comparing to 2014 (Petrostrategies)
A new context for gas supplies in Europe

World top LNG producers

International comparison of wholesale gas prices

Source: Quarterly report on EU gas market, Q3 2015
Conclusions: compromises to be found

• A new context for gas supplies in Europe
  – LNG glut – Low prices
  – The arrival of US LNG on the market – price war Russia?
  – Uncertainties on the future of the Asian gas demand

• Beyond political considerations, two main potential obstacles for Nord Stream II
  – Gazprom weaker financial position in the current context
  – Hurdles related to the EU regulatory requirements

• For Europe, Russia remains a major partner on the medium term – fallback solutions are not many

• EU energy diplomacy should reach a common position on the Russian supplier – A crucial factor for the success of the Energy Union.

• How to offset declining Ukrainian transit revenues.
Thank you for your attention

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