



**C.I.R.E.D.**  
CENTRE  
INTERNATIONAL  
DE RECHERCHE  
SUR L'ENVIRONNEMENT  
ET LE DÉVELOPPEMENT

## **The gas exporters' geopolitical and economic power:**

### **Do we really need an european external policy?**

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# Content

- Which perception of risks from geopolitical power and market power of the Russian Exporter?
- The means of the European Union in matter of internal/external trade and of foreign relations
- The weakness of the European means
- The new context of integrated gas market

# 1. A picture of permanent conflict of political and economic interests

- Before 1990 (with USSR) and market liberalisation
  - **club of buyers and sellers equilibrium of bargaining power**
  - No transit problem
- **Perception of a Russian risk rather than a transit risk**
  - The Two Russian Ukrainian crises in 2006 and 2009
  - Russian Belarus crisis in 2009
- **Perception of Russia as initiator of a Gas OPEC** (gas exporters from)
- **Gazprom was perceived as a danger if it develops market shares downstream** (despite initial presence with Wintershall in Wingas)
- **Conversely** Gazprom perceives liberalisation of European markets as a demand risk with much more uncertain net revenue and sales  
(Perception of possible development of LNG transactions and EU shale gas + demand decrease)

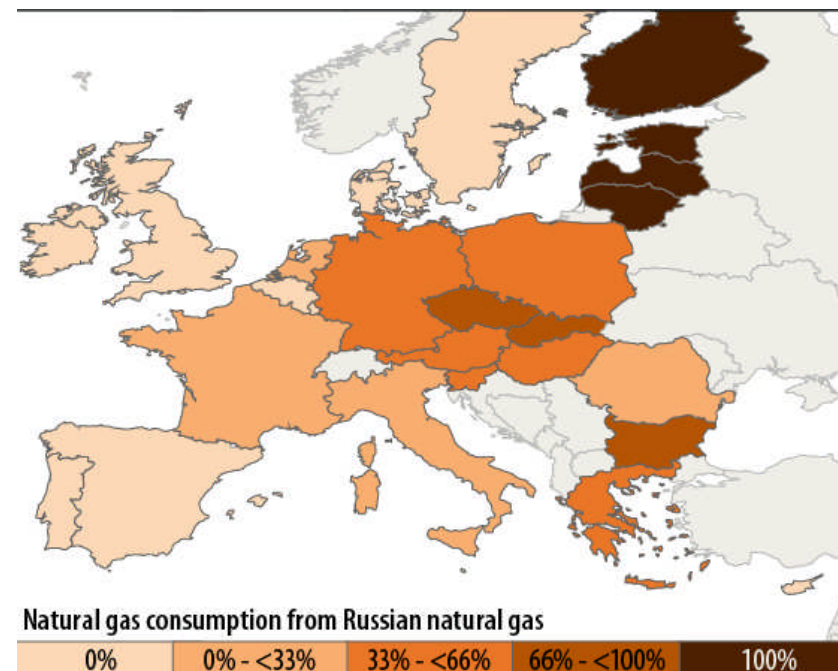
- Gazprom perceived has the most reluctant in the defense of long term contracts
  - In the past
  - In the new context of the European gas market with the large discrepancy between contract price and hub spot price

The most reluctant to renegotiate the oil price indexation provision  
whereas it consents large temporary rebates to big players

- Finally for the much dependent Eastern European MS the EU commission engages an **anti-competition probe**  
**No probe concerning Statoil, Sonatrach, ENI, GDFSuez, etc.??**

## Entrance of central and eastern MS change risks perception from the Russian Exporter 's geopolitical power and market power?

- Very great difference of degree of dependency from Russian exports
  - Western Europe : diversification (30-40% max) or nonimport at all (Spain, UK)
  - Dependency > 70%-100% : Baltic republics, Poland, Slovakia, Bulgaria, Czech republic



## 2. The EU institutional means in matter of security

### Lisbon treaty Art. 194 TFEU : four aims of Union policy actions in energy

- “(i) to guarantee the functioning of the energy market, it was already the case with art 95 and the directive on elec and gas markets
- **(ii) to ensure ‘security-of-supply’ of the Union,**
- (iii) to promote energy efficiency and the development of new;and renewable forms of energy,
- (iv) to promote the interconnection of energy networks”

“These aims are to be executed **in a spirit of solidarity** between the member states”

### But Lacks in the TFEU

Member states assert **national sovereignty over their energy mix**

1. TFEU sets **the Technology mix policy outside** the field on which EU could **act at the majority** (art 194 (2))

### 2. Few means in matter of Foreign energy policy

- High Representative for the Union in Foreign Affairs and Security Policy
- But It does not introduce the foreign energy policy in his field of competence.
- (DG Energy very jealous of its competencies in this field)

## Some structural elements (I)

- 1. **Focus of gas. Why not on oil?** Member states preferred IEA and global coordination at the world level in particular for strategic reserves
- 2. **The perception of geopolitical risks is very different between countries** (culture , history, degree of dependency, difference of interests)
- 3. **Soft power**: EU acts mainly by diffusion of norms
  - Market norms with candidates and
  - Tentative with Energy Charter Treaty (but failure because Russia)
  - Sustainability: problems if confrontations and conflict (exemplarity but it is not sufficient////climate policy example))

## Some structural elements (II)

- **4. Weak positioning in international relations**
  - Foreign states do not take EU seriously
  - TFEU does not improve general situation, : **great problem of lisibility**
- **The myth of “speaking with a single voice”**
  - Proposal of “single buyer” or “single negotiator « : but not in the TFEU
- Nevertheless SoS directive 2004 and reglements
  - improvement wiht the coordination committee
  - Means to improve ownb security
  - Regular Strategic Energy Report SER 2008



# The EU foreign gas policy fundamentals

## Active foreign gas policy mainly directed against Russia

Europe faces three main gas security challenges.

- **1. to export gas supply diversity from Western Europe to Eastern Europe,**
  - Market integration is the way to do that
  - the bilateral dependencies would become largely irrelevant.
- **2. to increase the ability of Europe as a whole to cope with supply disruptions, whatever their causes.**
  - A well-functioning market transforms any localised physical shortage into a universal price increase.
  - SoS directive 2004 and regulations give effective means to MS and EU
  - Additional measures such as **interruptible contracts** and **emergency inventories in each MS** would help reduce the economic impact of supply shocks.

**Solidarity decision: only then after EC decides**

- **3. to remove the debilitating effect of the EU-Russia gas relationship on EU foreign policy towards Russia.**

### **3. Contradictions between European gas firms capabilities and affirmation of a EU governance in matter of gas imports**

**The large sized gas/elec firms or EU oil firms are able to negotiate directly with the public gas exporters firms**

**They are able to promote and develop transit infrastructures and LNG liquefaction /regazeification with the producers: the case of Nordstream**

**Certainly Gas companies have been weakened by the EU competition policy (exemple in Germany with de-coordination of unique negotiator with deverticalisation and unbundling)**

**And European Commission wants to act in the register of a Strong and unified EU in the **Great Geopolitical Game****

**1. Corridors Policies**

**2. To negotiate with a single voice ..... **But it is not efficient****

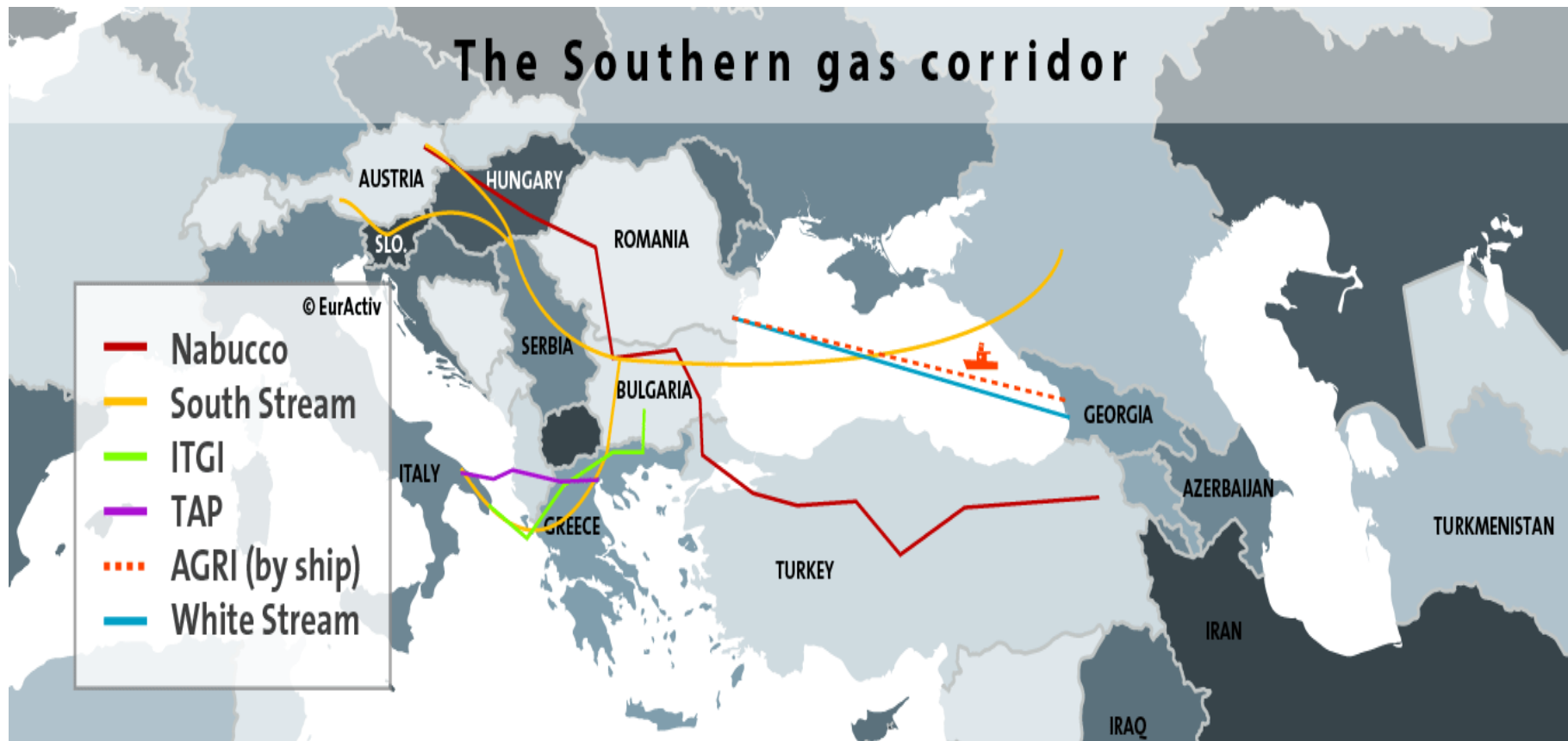
### **3.1. Policy of transit corridors for diversification: a fundamental tension between market norm and voluntaree gas foreign policy**

- **But the EU's Great Game does not work as shown by the Corridors policies and the agreements with Caspian/Central Asian countries, all the more if it is conceived in the term of market norm**
  - Nabucco conceived as a merchant pipe-line « marchand » without ex-ante gas contracts between producers et European buers
  - Illusion of automatic coming of Azeri, Turkmen, Iraqui, Iranian gas, etc. (+need of submarine Caspian pipe line)
- **Paradoxal Ignorance of potential competitive responses:**
  - Russia /Gazprom in economic position to react with its gas or even Turkmen gas (contract with Turkmenistan)
  - alliance with large western companies occidentales (ENI, EDF, wintershall) for Southstream
  - Attraction of nearly all the European Nabucco partners

# Finally **South Stream + TAP (10 bcm)** for the Azeri gas

in respect of fundamentals of long distance exports infrastructures:  
implications of the exporters and importers

South stream with Gazprom, ENI, Wintershall EDF,  
TAP with SOCAR and Statoil



## 3.2. The same contradiction for Single Voice

- EU reflections since the Green book of 2006 and the Strategic Energy Review (SER) of 2008
- Single buyer becomes Single negotiator
- First Trial with 'Unique negotiator' backing contract :
  - MoU 2008 with Turkmenistan: « Caspian Development Corporation
  - (CDC) project with several European partners RWE OMV etc;
    - But the Caspian Sea dilemma
    - The cost of the Caspian pipe line to join fictitious Nabucco : 8 billions \$
    - The Azerbaijan-Turkmenistan legal dispute on Caspian resources
    - The environmental issue
    - And the Level of credibility of Turkmenistan/opportunism (Russia, China, etc)

2011-2012 Present proposal of **information exchange mechanism**

Ex ante Verification of the conformity of State to State contracts with foreign suppliers with the EU rules (competition rules, human rights)  
Companies contracts are not concerned

But it is important **only for the Eastern MS**

### 3.3. Finally the only political way to weaken foreign public companies, and in particular Gazprom

- To apply the principle of competition and the gas market directives:
  - 1. Questioning of vertical integration of foreign vendors in the pipe line business In the gas

- 2. Present probe against Gazprom for the Baltic and some central european MS (market power exercise)
- Renegotiation of contractual price provision

But

1. it is the case of every long term contracts in tghe EU
2. Why not promote LNG regazeification terminal by a consortium of baltic companies

## 4. To conclude : Regionalisation and globalisation of gas market change the picture

Building a well-functioning internal gas market is less grandiose than developing a foreign energy policy, but more promising.

Infrastructures packages : interconnectors /LNG terminal....

Gas companies have been weakened by the competition policies and the unbundling

Foreign suppliers' bargaining power have been re-inforced

But EU reality is there:

**this has not given a legitimacy to supranational body at the EU level to substitute to companies and governments**

But market reality is also there :

- market is progressively winning: destabilisation of long term contracts,
- increasing indexation on spot price

- But the EU policy means do not correspond to the geopolitical capabilities of the EU which is not a sovereign State
  - To speak with a single voice ???
  - To challenge Russia in searching gas access in its « Near Neighbour » to resources
    - in the former CIS states (Turkmenistan, Azerbaijan, etc...)



## IEA prospects

Unconventional gas accounts for nearly half of the increase in global gas production to 2035, with most of the increase coming from China the United States and Australia.

But the unconventional gas business is still in its formative years, with uncertainty in many countries about the extent and quality of the resource base and concerns about the environmental impact of production.

By bolstering and diversifying sources of supply, tempering demand for imports (as in China) and fostering the emergence of new exporting countries (as in the United States), **unconventional gas can accelerate movement towards more diversified trade flows, putting pressure on conventional gas suppliers and on traditional oil linked pricing mechanisms for gas.**

## 5. Lessons... (following)

- Do not confuse risks : transit risk & the so-called Russian risks
- Diversification of sources will not occur by pipe-lines on Eastern sources, but is it so problematic?
  - The transit risk was the main risk: There will be diversification of transit routes
  - The dependence from Russia will decrease because LNG imports increase
  - Issue of interconnectors and solidarity in Central European and Balkanic state
- EU is best if staying in the Soft Power vein:
  - Go on quietly in the post -Energy Charter era
  - Russian Energy Architecture recognizes access to transit pipe-line
  - Does It depend on European Union to go on
  - A possible way to reach directly Turkmen gas in the mid term ?
- EU is best acting on solidarity and interconnectors

## Overview : Gas in Europe

- Major gas field
- Gas pipelines**
- $\varnothing > 1\,000$  mm
- $500 < \varnothing < 1\,000$  mm
- Major gas pipeline projects
- LNG transportation
- LNG terminals
- Projected LNG terminals
- Interconnectors
- Projected interconnectors
- EU-27

