

# *Good Governance and the Example of the South Stream Gaspipeline Project*

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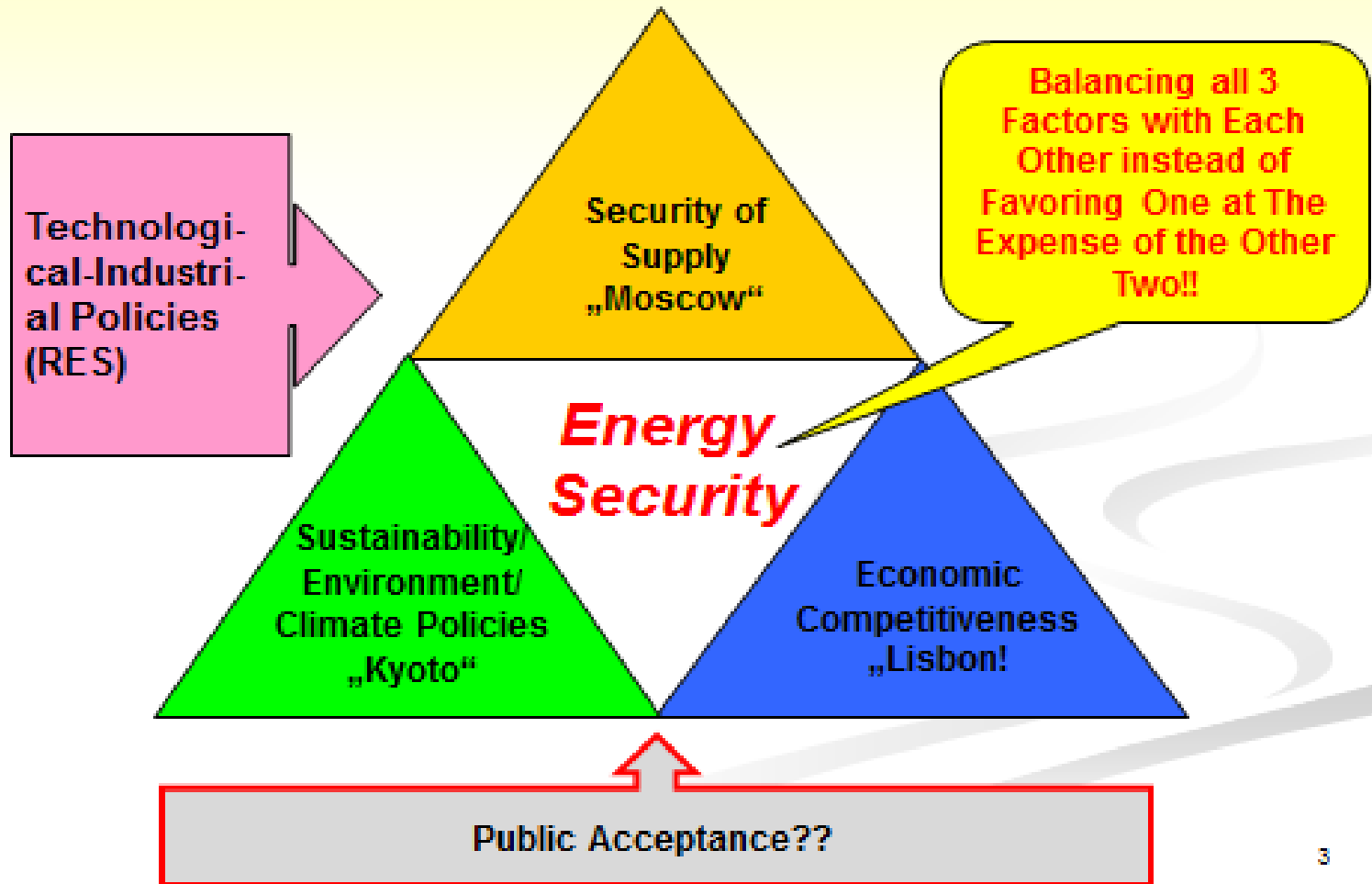
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# Introduction

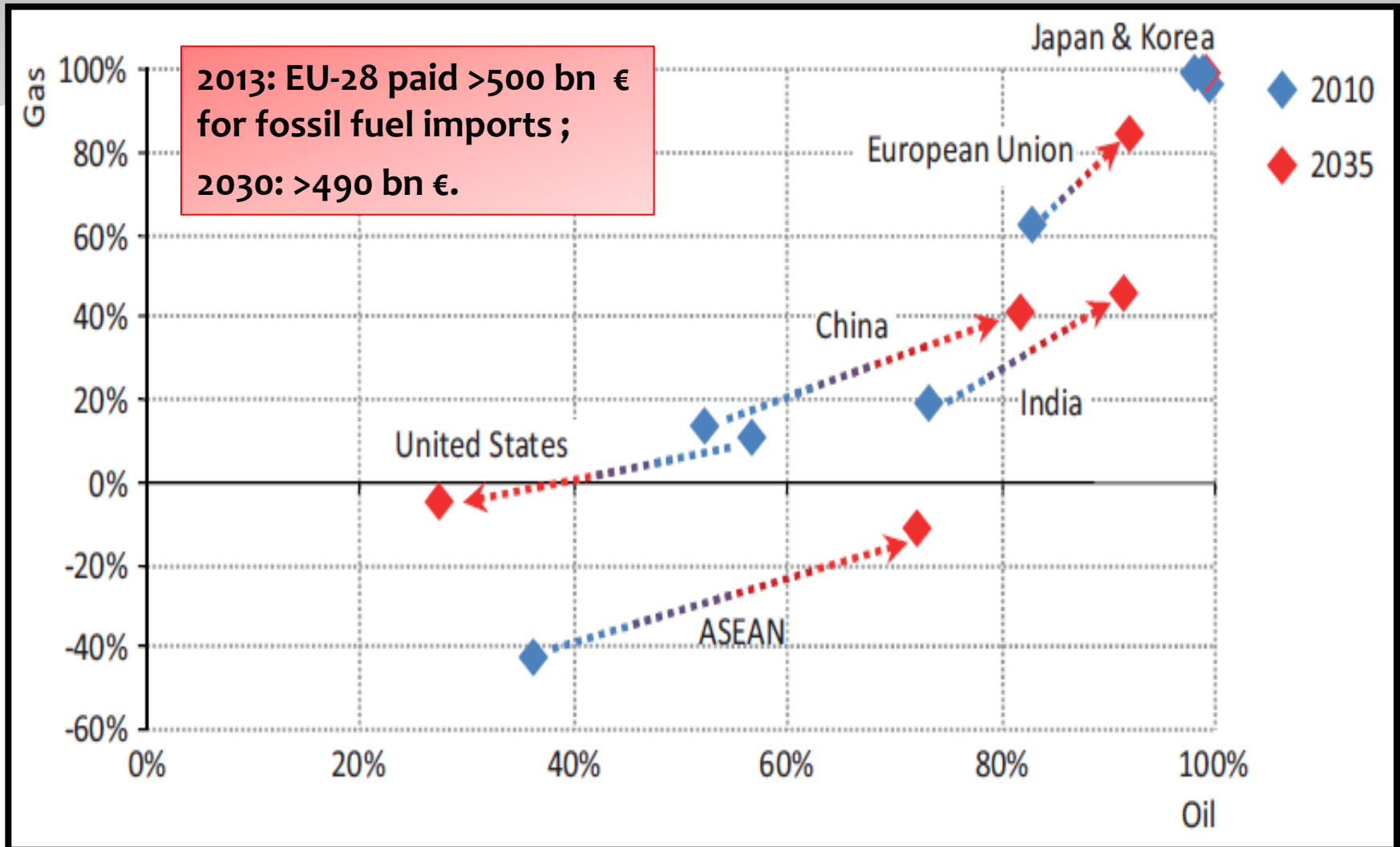
- **Long-term Complex Energy Investment Decisions by Governments and Ministries Hampered by:**
  - Often uncritical support of “National Energy Champions”;
  - Failing coordination of energy expertise across and above various ministries (example: Germany – no Energy Ministry or National Security Council for cross-cutting security challenges)
  - **Insufficient Analytical Capabilities of:**
    - geo-economic and geopolitical motivations of other countries (i.e. Russia: South Stream primarily a geopolitical project);
    - Global energy developments (i.e. impacts of U.S. shale gas and shale oil revolutions on other regional oil and gas market);
  - Short-term considerations prevail over long-term interests.
- **South Stream just a Regulatory Conflict?:**
  - **March/June 2013 European Council Decision:**
    - Strengthening Europe’s Diversification of Imports;
    - Supporting Ukraine’s energy reforms and gas import diversification;
  - 2013: Strengthening EU’s Economic Competitiveness and Lowering Gas Import Prices.

# Maintaining the Balance within the Energy Triangle and between its Three Objectives

## Energy Triangle – Objectives of Energy Security

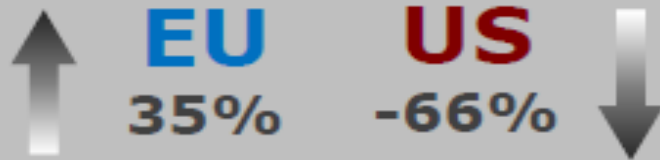


# Net-Oil- and Gas Dependency of Different Countries and Regions 2010-2035

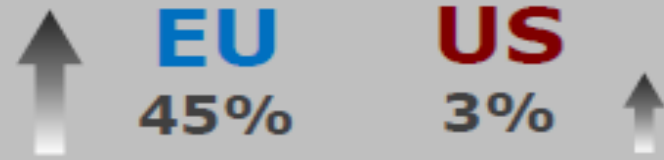


# Trends in energy price indexes 2005-2012

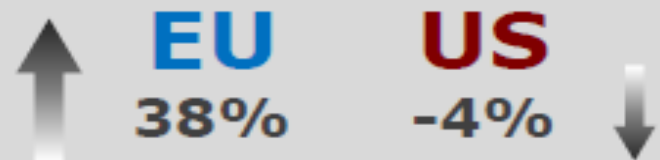
Gas price index  
Industry



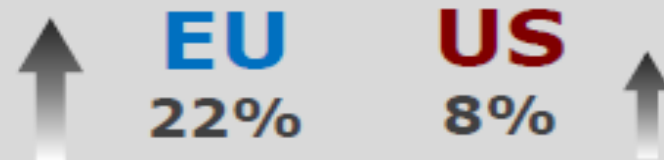
Gas price index  
Households



Electricity price index  
Industry



Electricity price index  
Households



Source: J.M. Barroso at the European Council, 22 May 2013

# Changes of the Global Energy & Gas Landscape II

- **Shale Impacts on World Oil and European Gas Market:**
  - Growing use of LNG on the global gas market;
  - Challenging the market power of conventional oil and gas producing countries and export cartels (OPEC, GECF);
  - Traditional oil-indexed gas contracts decreasing; spot-market and hub-based gas prices increasing;
  - New volumes – more competition (with Australia becoming the world's largest LNG exporter surpassing Qatar around 2017/18);
  - Geo-economic and geopolitical impacts on U.S.-LNG exports to Europe and Asia;

# The Changing European Gas Market

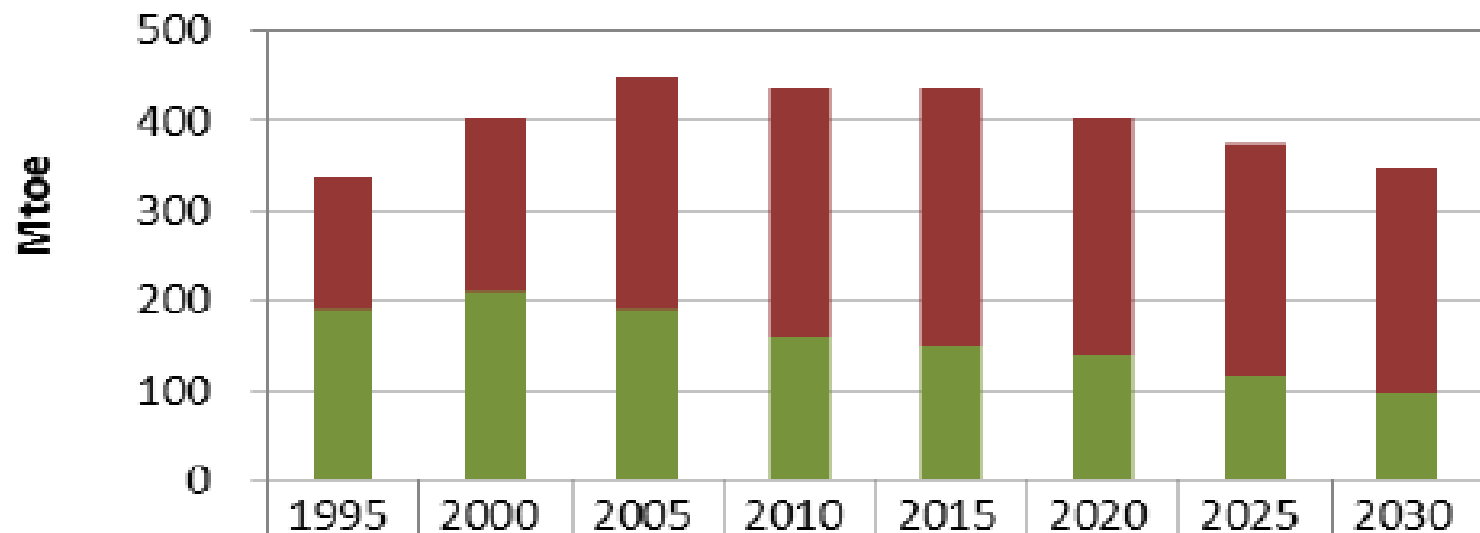
- Impacts of the Russian-Ukrainian Gas Crisis of 2006 and 2009 („20-20-20 Strategy“);
- Gas Demand for both Consumption and Imports Decreasing since 2008;
- Forecast of Europe’s gas consumption and imports equally constantly decreasing since 2008 compared with previous projections;
- Stagnating until at least 2020, but may even beyond till 2035 (IEA);
- **New European Gas Diversification Options:**
  - European shale gas;
  - LNG expansion (but presently costly)
  - Offshore gas resources in Romania, Bulgaria, Croatia, Greece and East Mediterranean region (i.e. Israel);
  - Southern Corridor: Azerbaijan, Kurdistan (Turkmenistan, Iran)

# EU-28: Projected Gas Import Dependency 1995-2030 (May 2014)

Figure 75. Natural Gas Projections until 2030 (2030 Policy Framework)

## Natural Gas Projections until 2030

*2030 Policy Framework*



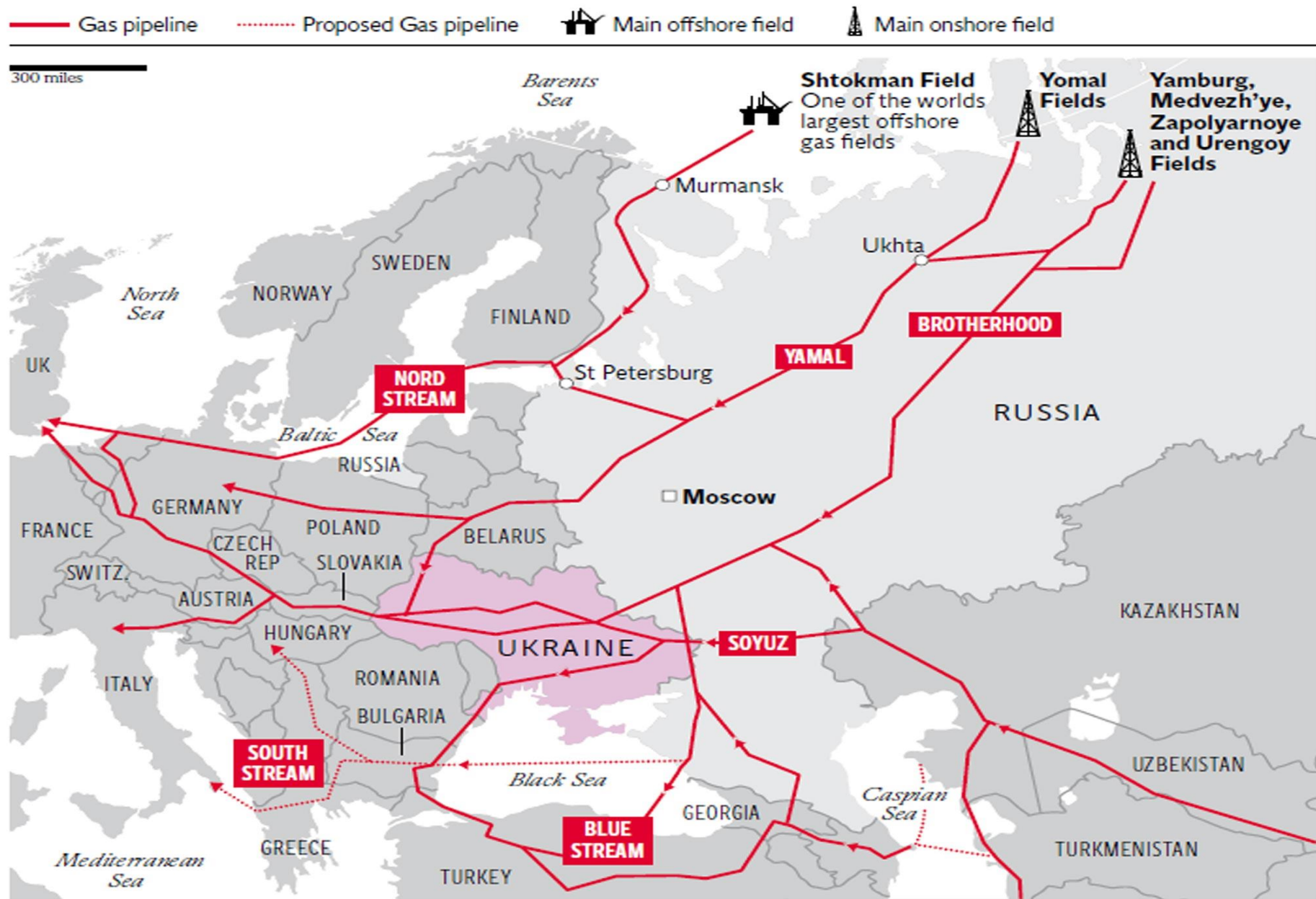
Net Imports	146	193	258	276	286	265	260	250
Production	191	209	191	159	149	140	115	97



# Gas Demand and Supply Forecast of SEE

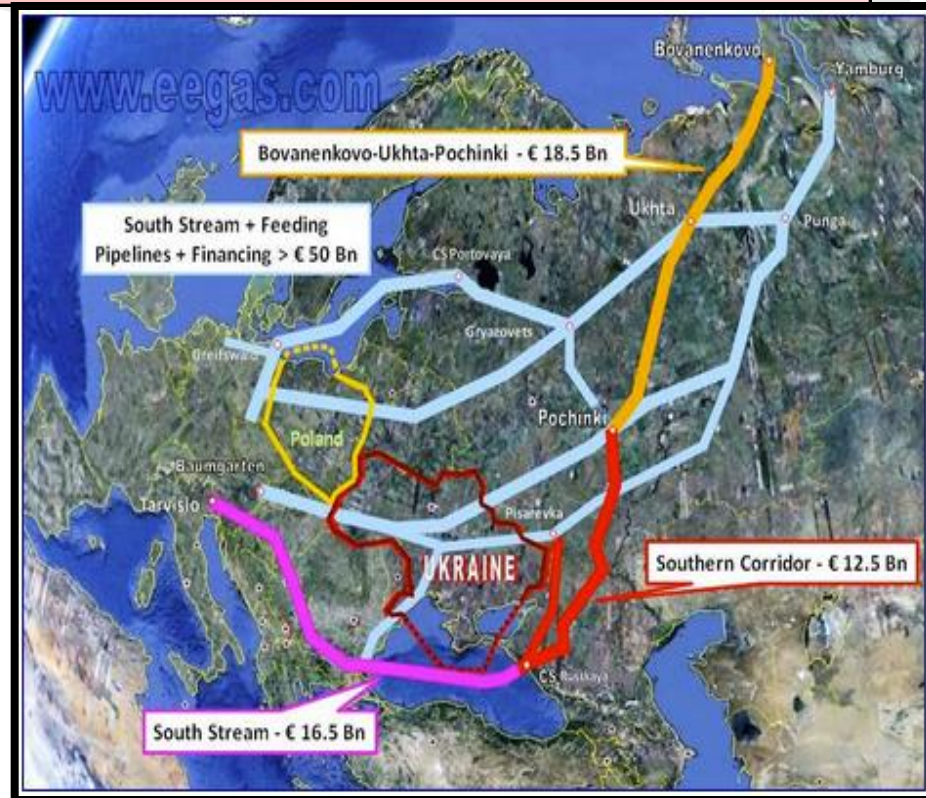
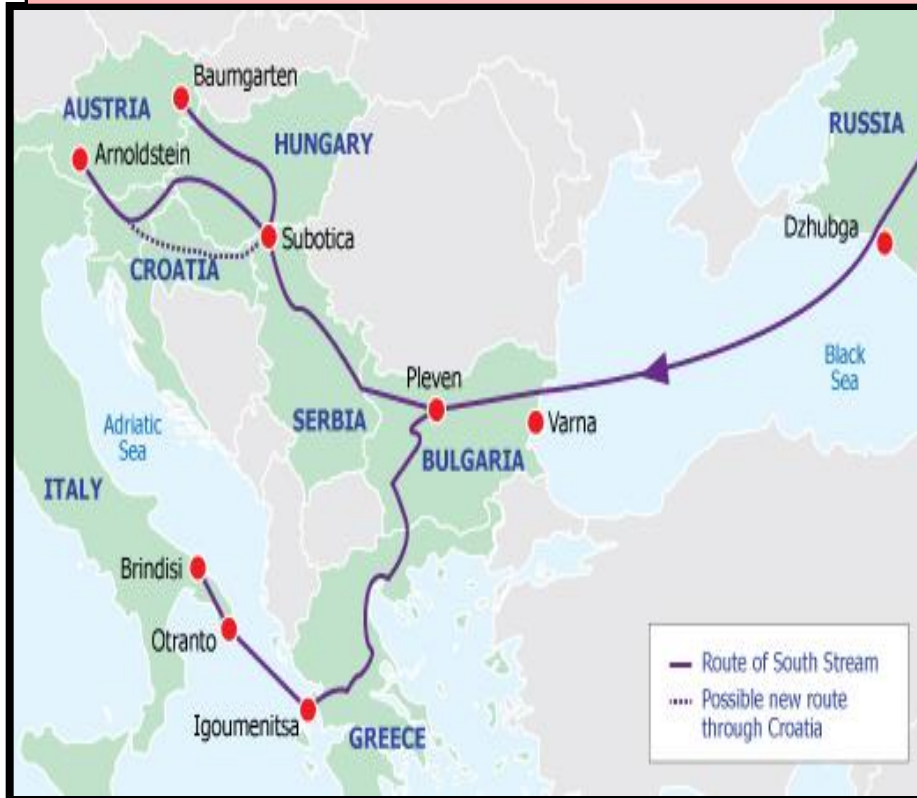
In bcm	2010		2030	
	Demand	Supply	Demand	Supply
Albania	0.0	0.0	0.1	0.1
Montenegro	0.0	0.0	N/A	N/A
Croatia	2.9	3.1	3.2	3.2
Bosnia & Herzegovina	0.2	0.2	0.8	0.8
Serbia	2.1	2.1	5.1	5.1
Macedonia	0.1	0.1	1.1	1.1
Bulgaria	2.8	2.7	4.9	4.9
Total	8.1	8.2	15.2	15.2

## MAIN RUSSIAN GAS PIPELINES TO EUROPE



# Russia's South Stream Project

- **Investment:** €25-30 bn of the South Stream pipeline itself + another > €30 bn of the Bovanenkov-Russkaya gas interconnector;
- **Future Russian Gas Exports to Europe:** hardly competitive in the ever more competitive European gas market.



Source: Interfaxenergy.com - Natural Gas Daily

Source: Mikhail Korchemkin

# Impacts on Russia and its Challenges

## ▪ Cheap and Abundant Russian Gas?

- Holding the world's largest remaining conventional gas resources, Russia has no problems with a lack of gas reserves;
- has also huge unconventional gas reserves, but is placing its attention to its huge conventional gas reserves due to its experienced traditional drilling technologies, lack of new fracking technologies and operational fracking experiences and declared higher costs;
- **but rather with the availability of gas markets and the future competitiveness of its gas exports;**
- main gas production already started moving from Gazprom's traditional West Siberian gas fields (i.e. Yamburg, Urengoy and Medvezhe) to the new gas fields in the Nadym-Pur Taz, Yamal Peninsula and Gydan peninsula, East Siberia, the Kara Sea and Far East.
- Gazprom's production from its present gas fields will decline by 20% by 2020 and 75% until 2030;
- **New and much more remote gas fields have much higher production and transport costs – hardly competitive) - Confirmed by Russia's internal discussions!**



# Conclusions and Perspectives I

- EU-Russia Conflict over South Stream: ultimately the result of economic-political orders in CEE (liberalised energy market vs. monopolistic/oligopolistic order)
- Gazprom and the Russian government are forced to price in the entire investment costs for the infrastructure of the South Stream pipeline into the newly-signed gas contracts with its European customers.
- **Russia's future gas supplies to Europe will become the most expensive gas supply option in comparison with Europe's other gas diversification options;**
- the Kremlin's daily interfering into operational functioning of its energy industry and the control of pipelines as well as other major gas infrastructures in Europe and Eurasia gives Russia a strategic influence on the world's gas prices, the *"rules of the game" in these regions, , and a wider geopolitical influence on the region's economic, foreign and security policies. In Eurasia, Russia's gas policies have been the 'main instrument of integration, allowing Russia to exercise its influence over these countries ... and to strengthen its soft power"* (Tatiana Mitrova).



**Thank you very much  
for your attention!**