

EU gas transit security and western CIS gas supply security: no longer two sides of one coin?

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A time-line of interruptions of transit across, and supply to, western CIS, and supplies to Europe

TRANSIT AND/OR SUPPLY INTERRUPTIONS TO CIS

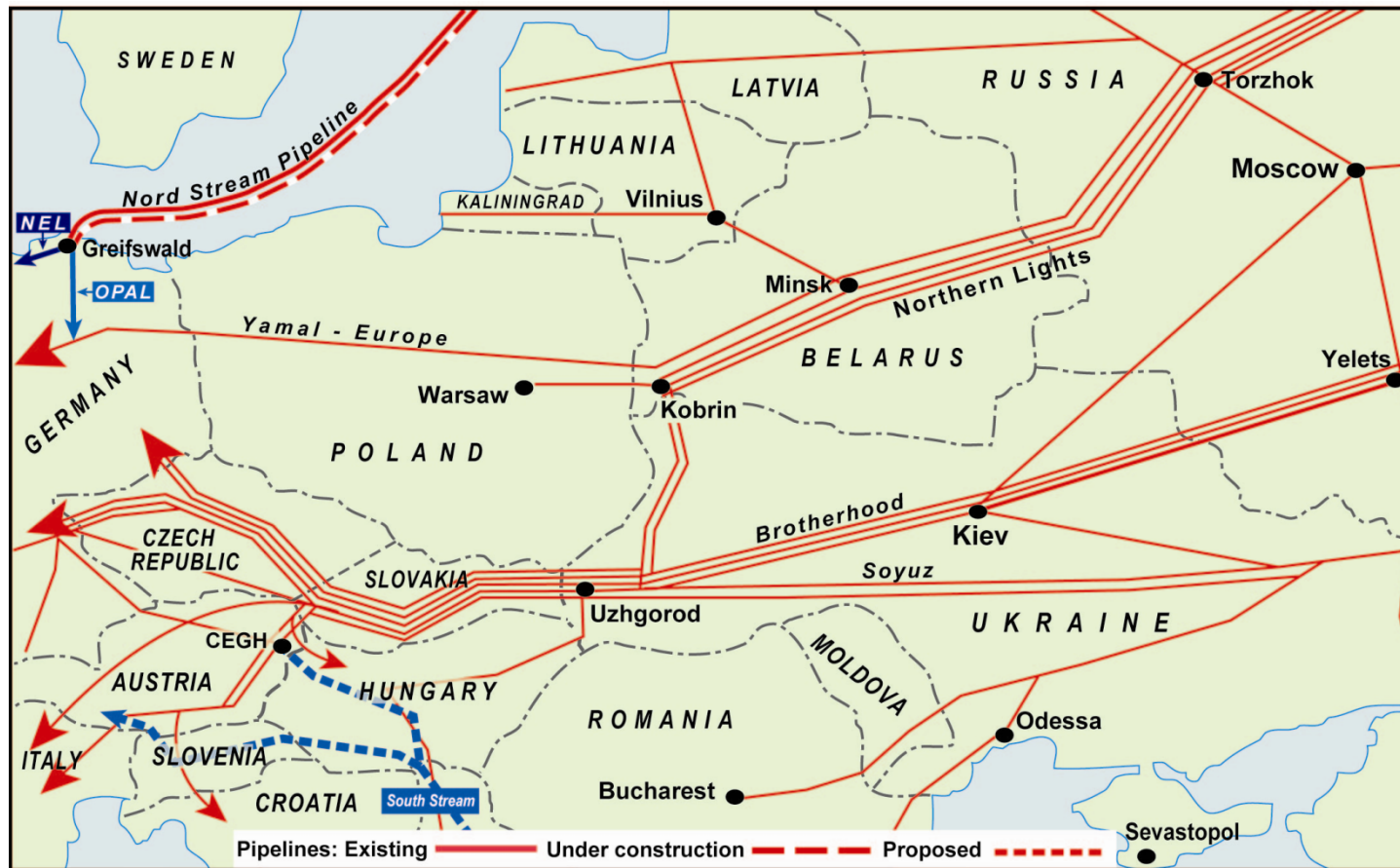
- the 1990s – all three west CIS
- **February 2004, June 2010** – Belarus
- **January 2006, March 2008, January 2009** – Ukraine
- January 2006 – Moldova

SUPPLY INTERRUPTIONS TO EUROPE

- February 2004 (< 2 days), January 2006 (3 days), January 2009 (2 weeks), June 2010 (1 day)

EU gas transit security had become one of the weakest links of EU energy security, becoming a function of west CIS supply security: two sides of one coin

Western CIS Transit Pipelines to Europe



Source: OIES

Western CIS (as the only export corridor) had been crucial for EU transit (energy) security, but their importance is set to decline as transit avoidance infrastructure made progress - Nord Stream and (possibly) South Stream

North Stream Gas Pipelines



Source: OIES

**Nord Stream 1 commissioned – November 2011;
Nord Stream 2 – late 2012;
discussion of Nord Stream 3 and 4
Gazprom, EON, BASF, GDF, Gasunie**

South Stream and Blue Stream 2 Pipelines



Source: OIES

**South Stream 1 – 4Q 2015;
 FID – (2H 2012) depends on cost/profitability and politics
 Gazprom, ENI, EDF, BASF**

If all of these pipelines built then, by 2015, Russian gas will be able to move to Europe via:

- a northern route – Nord Stream**
- a central route – Ukraine/Belarus**
- a southern route – Blue Stream / South Stream**

Spare capacity means that Gazprom will be able to ‘arbitrage’ between the routes, the power of individual transit countries will be much reduced; Europe’s security will be improved; Ukraine becomes ‘transit route of last resort’



Russia-western CIS gas relations in the 2010s: changing negotiating dynamics (contracts)

UKRAINE / BELARUS / MOLDOVA:

- Decline of transit power as the major factor of price formation in the 2010s
- Gazprom's captive market?
 - *High inelastic demand*
 - *Little ability of fuel/source diversification*
 - *(un)affordability of energy efficiency measures*

Western CIS ability to secure 'better' price by using transit power is set to decline, whereas its ability to reduce dependence on Russian gas is not feasible (at least) until 2020



Ukraine: crisis-making or peace-brokering?

UKRAINE:

- if no concession on price then arbitration, revision, liquidation/reorganisation
- 'no' to a bilateral Gazprom-Naftogaz JV, but Brussels is (even more then ever) hesitant about trilateral JV

RUSSIA & Gazprom:

- Price concession only if (partial) network ownership, storage, increased access to market, membership in the CU/SES

Although Gazprom has made no concessions yet, Ukraine has not abrogated the Jan 2009 contract, and it is not likely (but not impossibility) to do so



Belarus: 'done deal'

BELARUS – RUSSIA / GAZPROM

- Difficult financial outlook - 100% currency devaluation
- Gazprom became the sole owner of Beltransgaz in late 2011
- 2012-14 supply and transit contracts concluded
 - *2012 price - \$165/mcm*
 - *2013-14 – formula-based (Russian domestic price plus transportation plus storage)*
- Single Economic Space (Dec. 2010)
 - *prices to reach European 'netback' by 2015*

Nord Stream start of deliveries in November 2011 was a strong factor in the parties' reaching an agreement before winter 2011/12



Energy Community Treaty (EnCT)

- **Membership:**
 - EU/MS, non-EU Balkans, Ukraine/Moldova, but not Russia/Belarus
- **National legislation to be consistent with:**
 - *2nd Package (compulsory), or*
 - *3rd Package (voluntary basis)*
 - *but Ukraine's Gas Law not in line even with the 2nd Package*
- **Extends the energy *acquis* on non-EU members but Commission' ability to ensure compliance outside the EU is limited**



EnCT: limits and implications (for Europe) of Ukraine/Moldova membership

- Can EnCT be used as a pre-text for termination / renegotiation of Ukraine/Moldova's Gazprom contracts?
- Can EnCT improve transit/supply security by pushing through gas sector reforms in Ukraine/Moldova?
- EnCT does not contain dispute settlement mechanisms (DSM) for resolving transit disputes
- EnCT 'mutual assistance' provision did not work during the Jan 2009 Russia-Ukraine gas crisis

**Ukraine/Moldova EnCT membership might affect European gas transit security, both positively and negatively.
Value as DSM is limited.**

Energy Charter Treaty (ECT)

- **Membership:** EU/MS, Ukraine/Moldova, Belarus (provisional), Russia(withdrawal)
- **Transit non-interference provision (Art. 7)**
- **ECT dispute settlement procedures**
- **ECT failure during Jan 2006/2009 Ukrainian crises because of parties inaction**
 - important but unrealised role for the EU/MS, is the 'reformed' ECT possible?

There *are* instruments within the ECT but *none was used* to prevent / resolve Russia – CIS transit disputes

SPACES

Countries/Regions

CONTRACTUAL SPACE

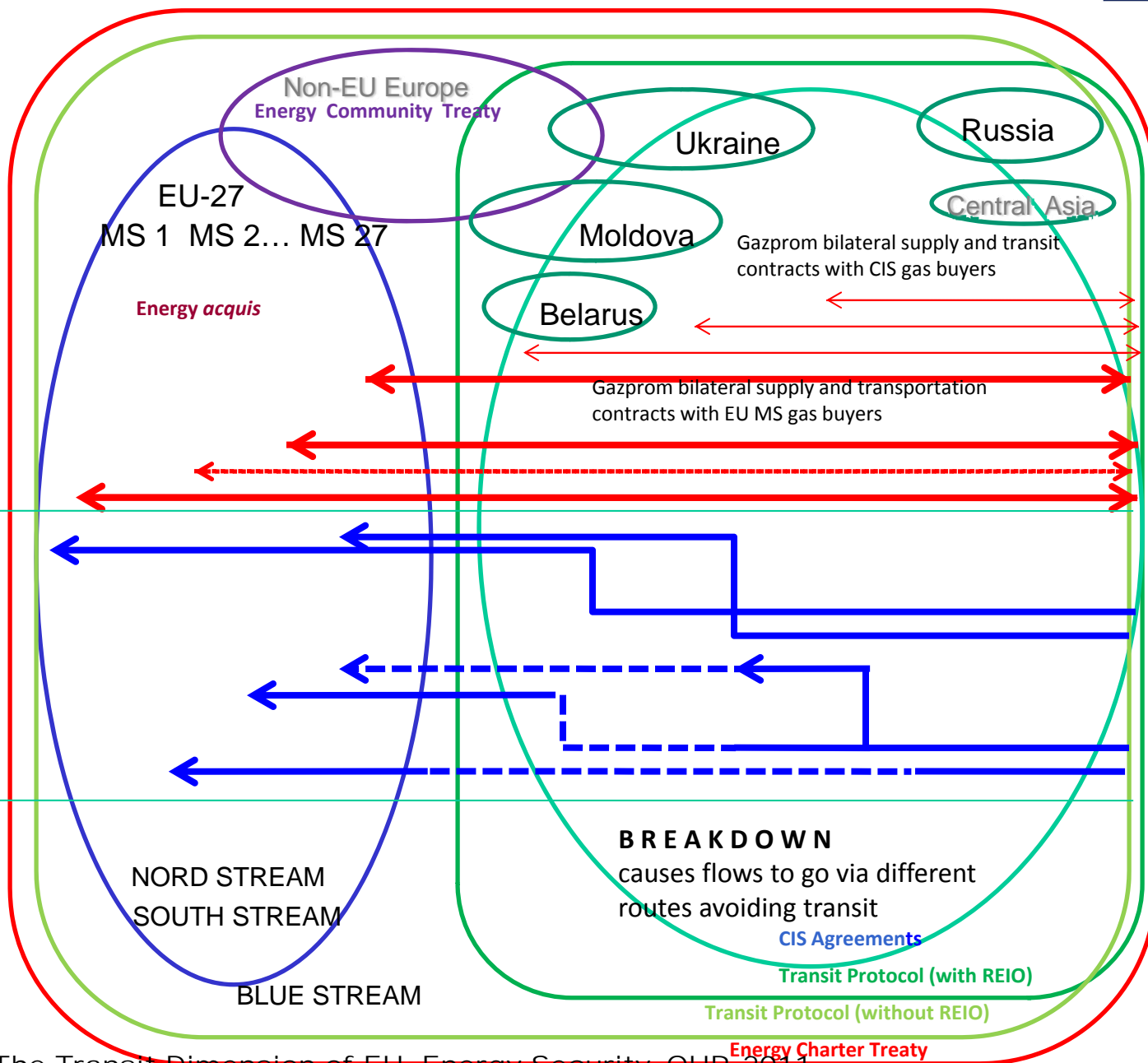
Contractual breakdown of transit can lead to contractual breakdown of supply and vice versa, which can impact the **SPACE OF FLOWS** (physical interruption /breakdown)

SPACE OF FLOWS

Physical breakdown of flows (due to accident / technical failure of supply or transit infrastructure) can impact the **CONTRACTUAL SPACE** and the **LEGAL/REGULATORY SPACE**

SPACE OF PLACES

Nation state breakdown of relations impacts the **SPACE OF FLOWS**, the **CONTRACTUAL SPACE**, and the **LEGAL/REGULATORY SPACE**



CONCLUSIONS (1): transit, exports to CIS, and pricing

TRANSIT / EUROPE: Nord Stream has improved security, and Gazprom behaves as if South Stream will proceed as well, no matter whether the Ukrainian situation is resolved

PRICING / CIS: as western CIS ability to interfere with transit (and the impact of such interference) are set to decline, its ability to secure 'better' price by using transit power, will also decline

EXPORTS TO CIS: current contractual & political set-up suggests that Gazprom will cover most of western CIS gas demand (at least) until 2020



CONCLUSIONS (2): broader implications

BROADER IMPLICATIONS:

increasing disconnect between Europe's (particularly, north west Europe) transit security and CIS supply security, hence Europe's energy security will be less dependent on success/failure of CIS gas sector reforms

ECT might be a useful framework for bridging the growing EU/CIS disconnect – politically, regulation-wise, and commercially

south east Europe (despite new interconnections) would still be dependent on secure transit across Ukraine/Moldova up to 2015/16, and hence should promote both EnCT/ECT, and engage Ukraine/Moldova more actively

West CIS supply security increasingly dependent on Russia, hence stability of CIS-Russia political relationship is paramount

OIES Gas Programme publications on Russia-CIS gas issues



- **The Transit Dimension of EU Energy Security: Russian gas transit across Ukraine, Belarus and Moldova, Katja Yafimava**
- **Elusive Potential: gas consumption in the CIS and the quest for efficiency, Simon Pirani**
- **The June 2010 Russian-Belarusian Transit Dispute: a surprise that was to be expected, Katja Yafimava**
- **The April 2010 Russo-Ukrainian Gas Agreement and its Implications for Europe, Simon Pirani, Jonathan Stern, Katja Yafimava**
- **The Russo-Ukrainian gas dispute of January 2009: a comprehensive assessment, Simon Pirani, Jonathan Stern, and Katja Yafimava**
- **The future of Russian gas and Gazprom, Jonathan Stern**



Thank You

[http://www.oxfordenergy.org/
gas-programme/](http://www.oxfordenergy.org/gas-programme/)