

EU-Russia Energy Dialogue - in a changing climate

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Changing climate - of collaboration

- Generally less co-operative global environment, more difficult for problem-solving
- Particularly true for energy security which is at the top of the policy agenda
- Low level of trust : Cheney, CFR report, statements by A. Medvedev, Miller and Putin.
- No need to turn the table, progress may come even without complex arrangements



Fundamental common interests

- Mutual security of supply and demand
- Depletion of hydrocarbon fields and depreciation of existing assets, and no real diversification alternatives in medium term
- Cleaner and more energy-efficient growth
- Enhance and diversify transportation systems + connection of power transmission
- Over USD 700 bn investment needed in Russian energy sector over next 20 years
- Common economic space



Concerns on the Russian side

- The EU hostility to long-term contracts
- Access for Gazprom to European markets
- European drive towards diversification turning Russia into “the supplier of last resort”
- Political risks in transit countries
- Inconsistency of treatment in WTO process



Concerns on the EU side

- Restrictions on ownership of strategic fields
- Use of energy as a tool for foreign policy
- No third-party access to Gazprom's pipelines
- Russia's opposition to the Energy Charter and transit protocol
- Slow progress in implementing Kyoto protocol
- Slow/no reforms in the gas sector



Changing focus in energy security

- Fossils fuels dominate for next 30 years
- Though oil significant, gas main challenge:
 - Prevailing trend in Europe's consumption (no alternatives)
 - New Russian fields smaller, remote, more difficult to exploit
- But climate change => momentum to energy efficiency, renewables, clean coal, nuclear
- Future: Clean coal (40% of reserves in OECD)



Projects of common interest

- The Shtokman gas field
- The North-European gas pipeline
- The Burgas (to Alexandroupolis) oil pipeline
- The UCTE interconnection (RAO UES)
- Yamal-Europe II gas pipeline
- Druzhba-Adria oil pipeline sponsored by INA
- Nabucco Gas pipeline (Turkey to Austria)



Medium term questions

- Russian gas balance increasingly tight at least until 2010 (when new fields come on stream); Gazprom's demand forecast (1 %) too conservative
- Gazprom will struggle to offset decline (70% of production from fields in decline)
- While steady growth of demand (2-3% annually) from EU and FSU
- Independents, oil companies and CA imports key in meeting demand growth



Steep price increases likely

- EU-Russia WTO agreement: \$49-57/tcm 2010
- Now: highest disparity between domestic gas price and export prices and acute shortages
- Little inter-fuel substitution => gas remains dominant fuel in Russia (54% of primary energy consumption)
- Huge inefficiencies: Only 5 countries more inefficient
- Marginal cost increase: \$35/tcm => \$50-75/tcm 2010
- Price of \$80/tcm by 2010 politically feasible



Major implications

- Progress possible despite climate change
- Russia will promote reforms on its own, not by EU push
- Energy efficiency economical
- Forces pipeline access for others
- Less gas flaring and incentives for Kyoto
- Revive appetite for gas sector reform



Other encouraging news

- Debate inside the Russian political elite
- Generational change increasingly strong driver
- Kudrin: ratification of (revised) Energy Charter
- Recent progress towards Kyoto implementation
- Plans for reserve declassification (transparency)



Energy efficiency: G8 Gleneagles Communique call on IFIs

- Accelerate adoption of cleaner and more efficient technologies
- Increase investments in renewables and energy efficiency
- Identify less greenhouse-gas-intensive growth options
- Develop local commercial capacity to promote energy efficiency and low carbon energy sources



What EBRD does in this area

- Financing industrial energy efficiency projects (Air Liquide-Sevestal JV in steel, Uralkaly in chemical, or Alcoa in aluminium)
- Dedicated energy efficiency credit lines (Spurt Bank in Kazan)
- First district heating project in Ufa
- Municipal and environment infrastructure projects (most recently Krasnodar)
- A range of projects for carbon trading
- **EBRD's Climate Change and Energy Efficiency Initiative (EUR 1.5 bn)**

