



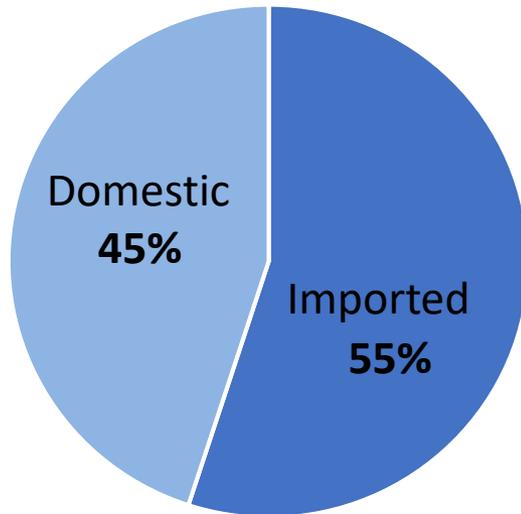
Europe-Russia energy relations
Geopolitics, political economy and commercial trends

Luca Franza, 21 November 2019

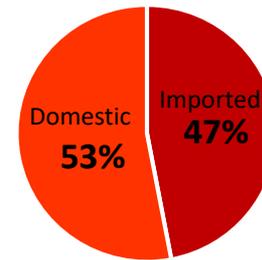
The EU needs a lot of imported energy

In fact, it has been needing more and more imported energy

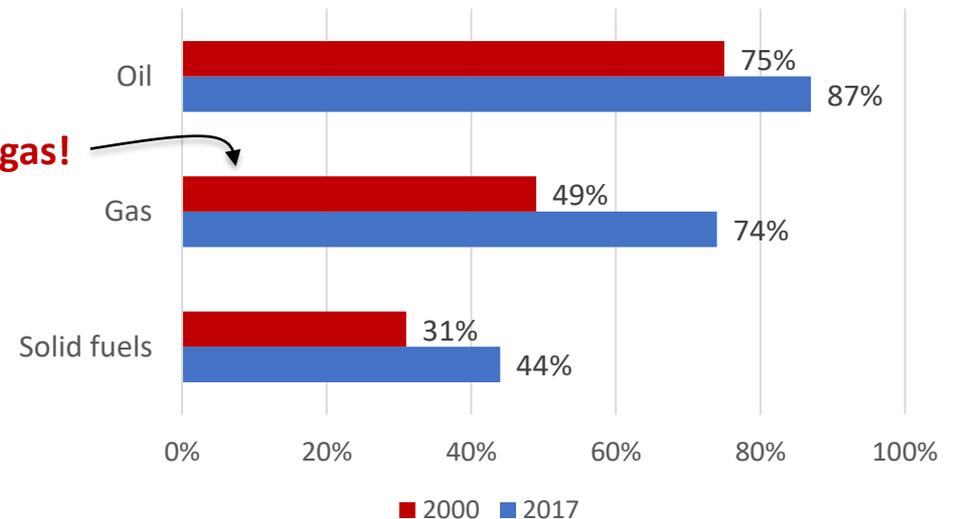
EU's import dependency rate, total energy – 2017



EU's import dependency rate, total energy – 2000



EU's import dependency rate, by fuel – 2000 vs 2017



Fastest growing: gas!

Source: CIEP, based on Eurostat data – refers to EU28

Russia is the EU's largest supplier of fossil fuels (all of them)

Russia provides roughly 1/5 of the EU's total energy needs

EU imports of crude oil

by partners 2017, (%)



Shares based on million barrels
Source: EUROSTAT

EU imports of solid fuel

by partners 2017, (%)



Shares based on million cubic metres
Source: EUROSTAT

EU imports of natural gas

by partners 2017, (%)



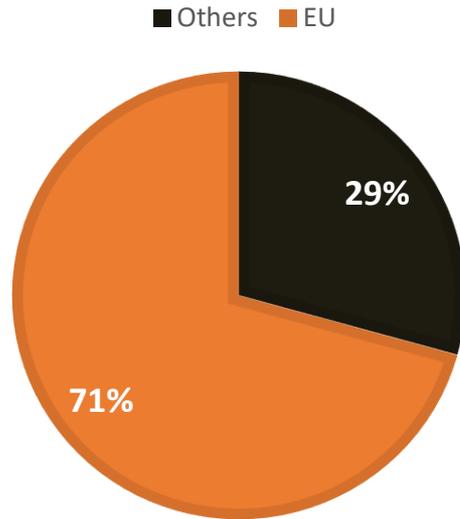
Shares based on million cubic metres
Source: EUROSTAT

Source: Eurostat

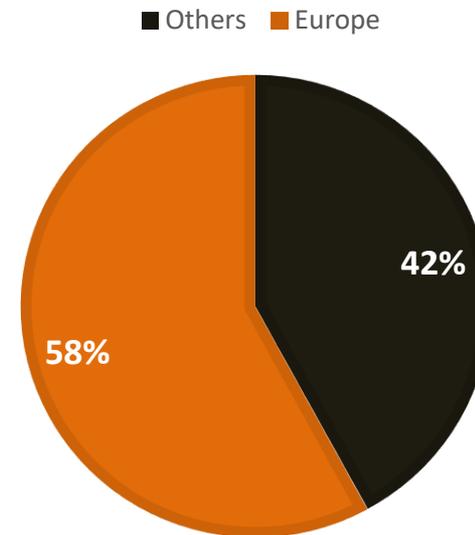
And Europe is the key market for Russian oil and gas

Russia is arguably more dependent on European demand than Europe is dependent on Russian supply

Russian natural gas exports by destination (LNG and piped gas), 2018



Russian petroleum exports by destination, 2018

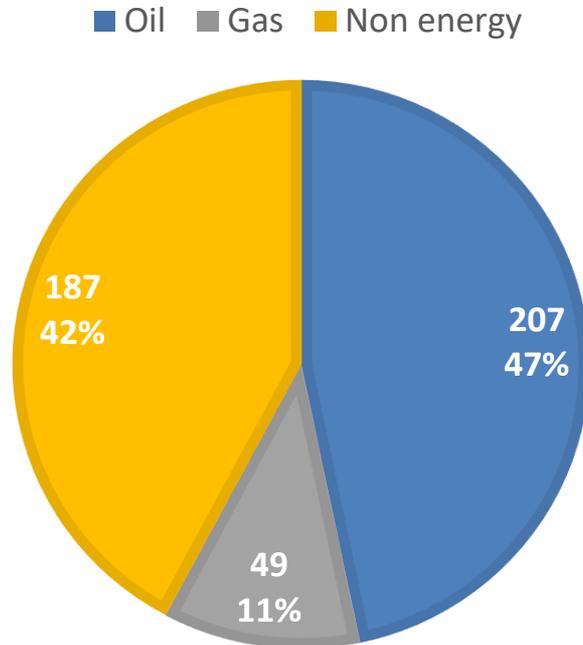


Source: CIEP, based on BP data

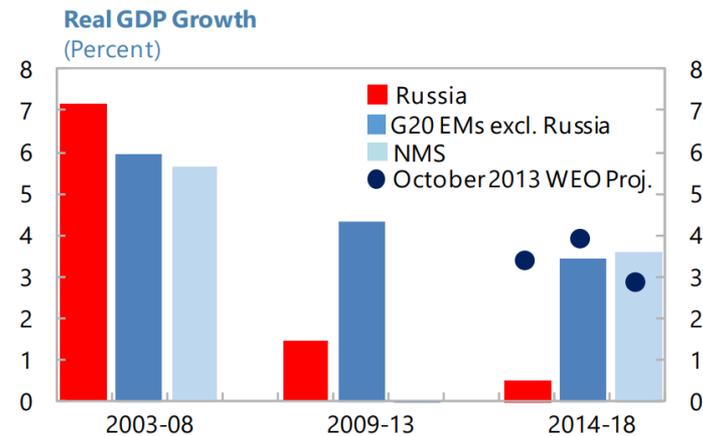
Figures for gas refer to the EU28, figures for petroleum include Turkey and other European countries

... and oil (and gas) exports are the lifeline of Russia's economy

Russian exports, contribution of oil and gas (value, in billion \$) – 2018



Average GDP growth in Russia, compared to EMs and EU's NMS



Sources: IMF WEO and IMF staff calculations.

**Value of Russian exports in 2018:
443 billion \$**

In Russia, oil accounts for:

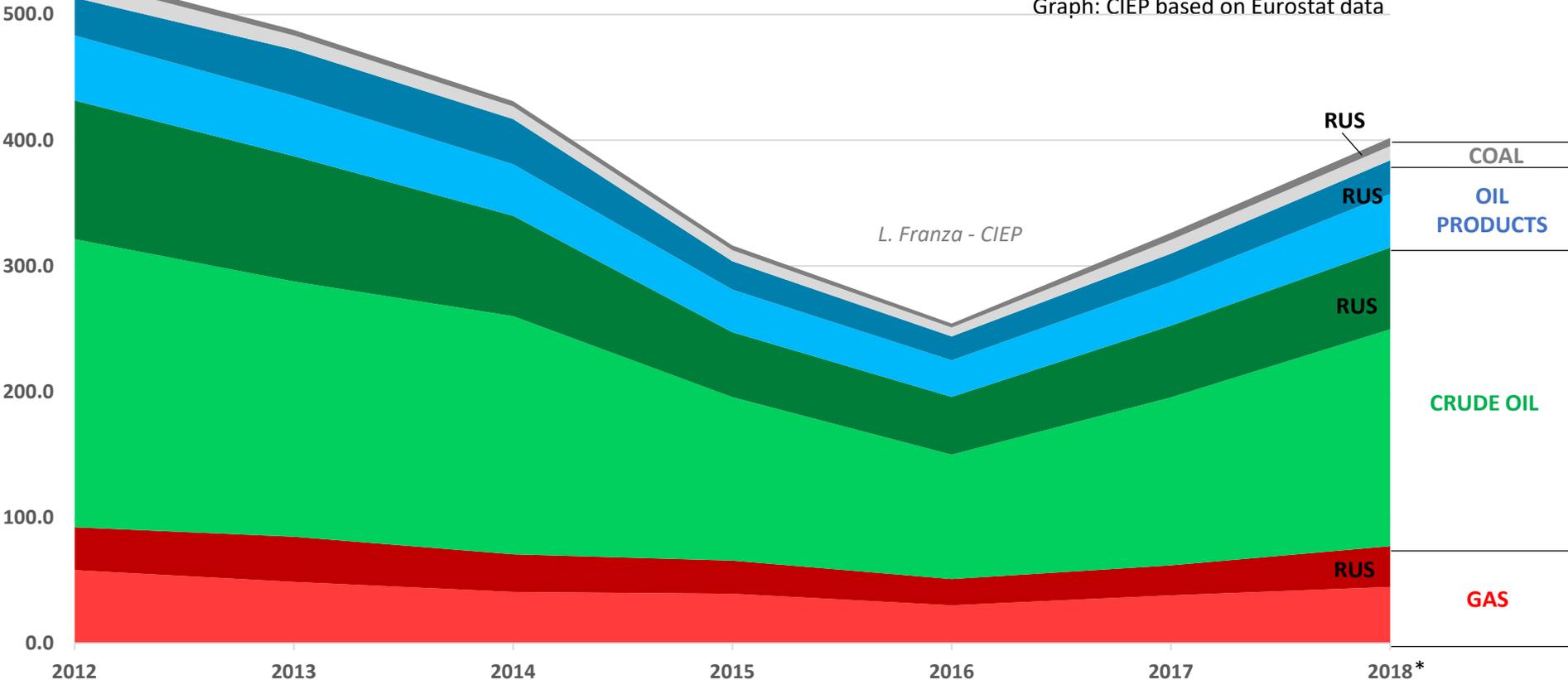
- 47% of export value
- 28% of government revenues
- 10% of GDP

Source: CIEP, based on IMF data (2018)

Europe's energy trade balance is dominated by oil – Russian gas is marginal

EU Energy Import Bill 2012-2018 (EUR Bn)

Graph: CIEP based on Eurostat data



L. Franza - CIEP

RUS

COAL

OIL PRODUCTS

RUS

RUS

CRUDE OIL

RUS

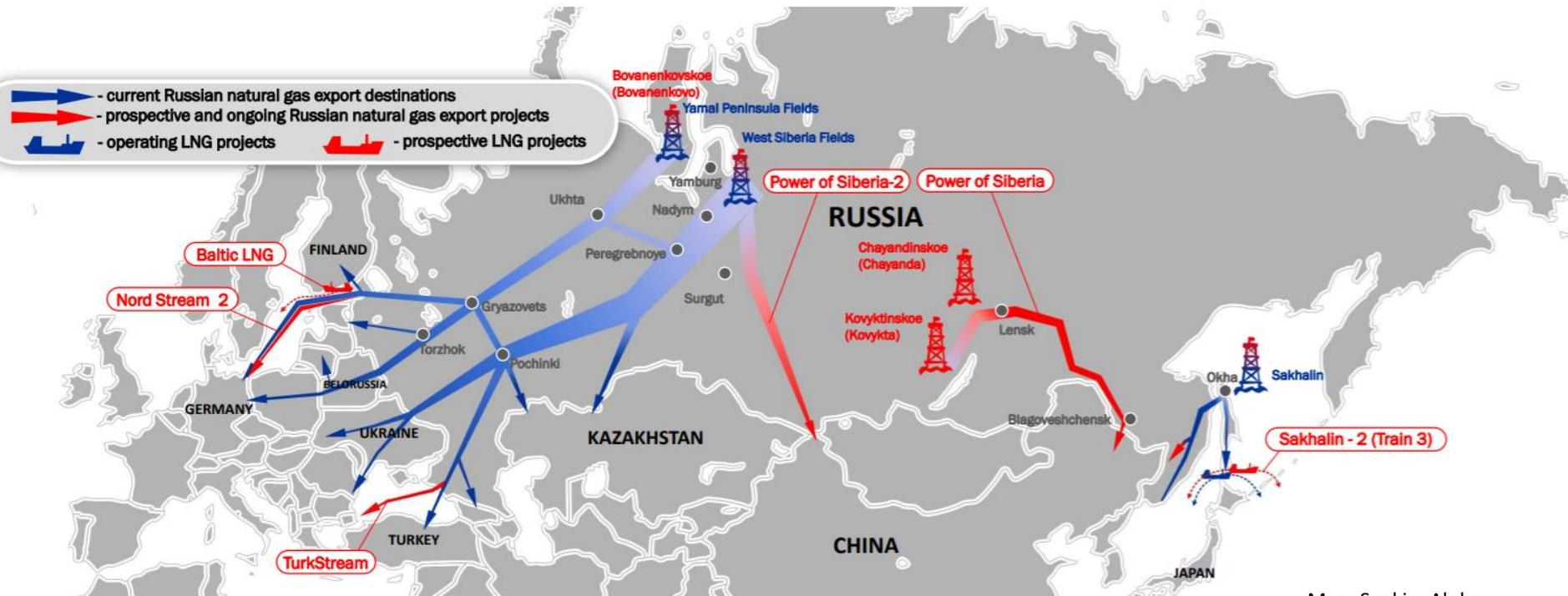
GAS

- Non-Russian gas
- Russian gas
- Non-Russian crude oil
- Russian crude oil
- Non Russian oil products
- Russian oil products
- Non-Russian coal
- Russian coal

Deep interdependence but gradual securitization of EU-RU gas trade

How did we reach this point?

- 1970s, 1980s: Soviet gas as instrument of peace – roots of deep EU-RU interdependence are here
- 1990s: USSR collapse – Russian ‘decade of humiliation’ – EU fears RU gas isn’t enough
- 2000s: NATO/EU expand – Putin in power – EU liberalizes and starts decarbonization – UKR crises
- 2010s: Impact of U.S. shale and LNG boom– worse West-Russia relations – more decarbonization



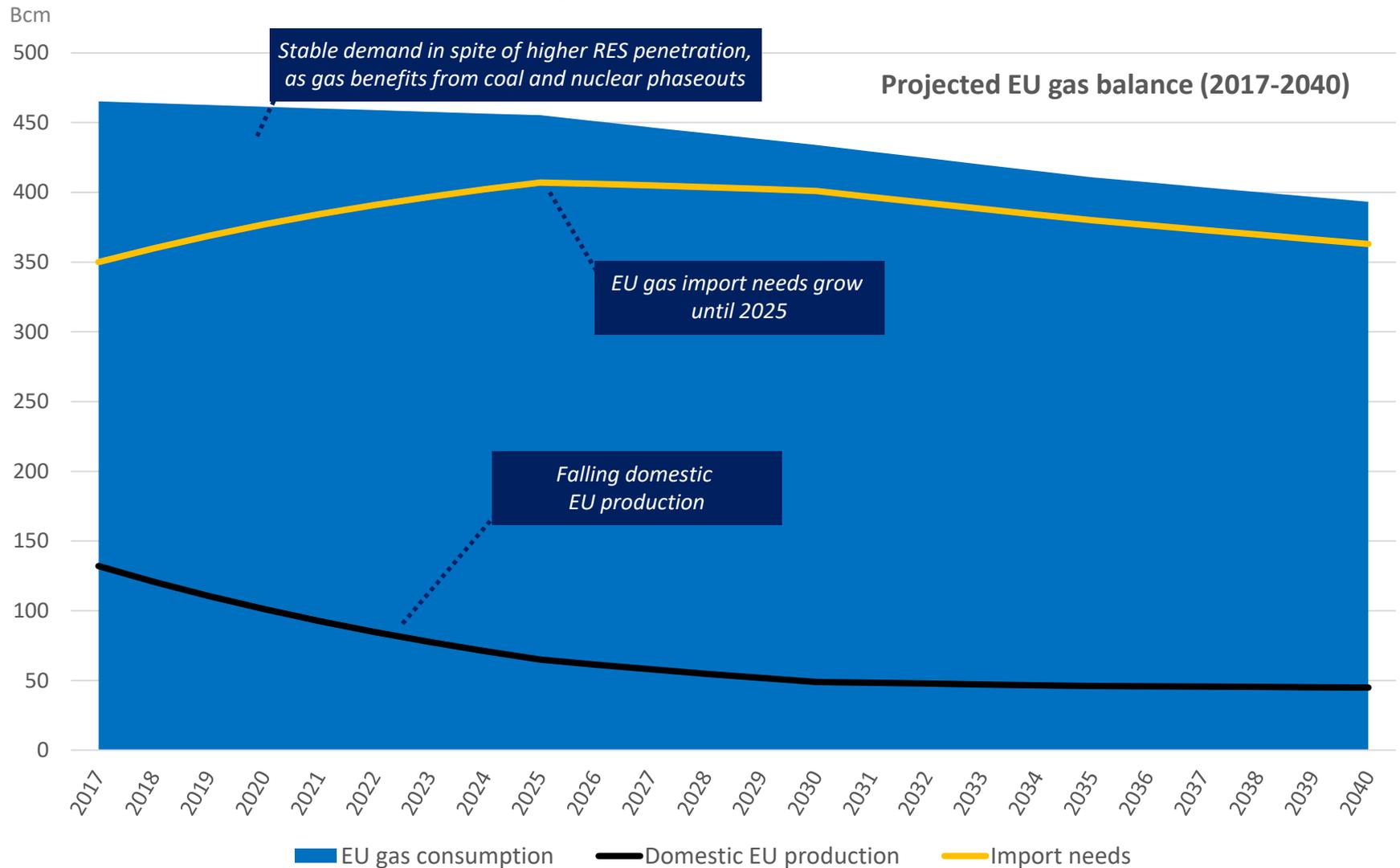
Map: SeekingAlpha

Where do we stand?

- Europe's gas import needs are still growing, in spite of a generally hostile political climate for gas
- Russia is trying to bypass Ukraine (Nord Stream-2, Turk Stream)
- Europe politically supports the continuation of transit through Ukraine
- Europe is intensifying efforts to diversify away from Russian gas
- At the same time, Russia is trying to diversify away from Europe
- Developments in global markets and US-China trade war are bringing more LNG to Europe, but volumes are still relatively small.
- Europe is also focussing on internal gas market interventions to become more resilient to disruptions and empower consumers
- In the longer term, Russian gas appears the cheapest and most readily available gas source to supply Europe

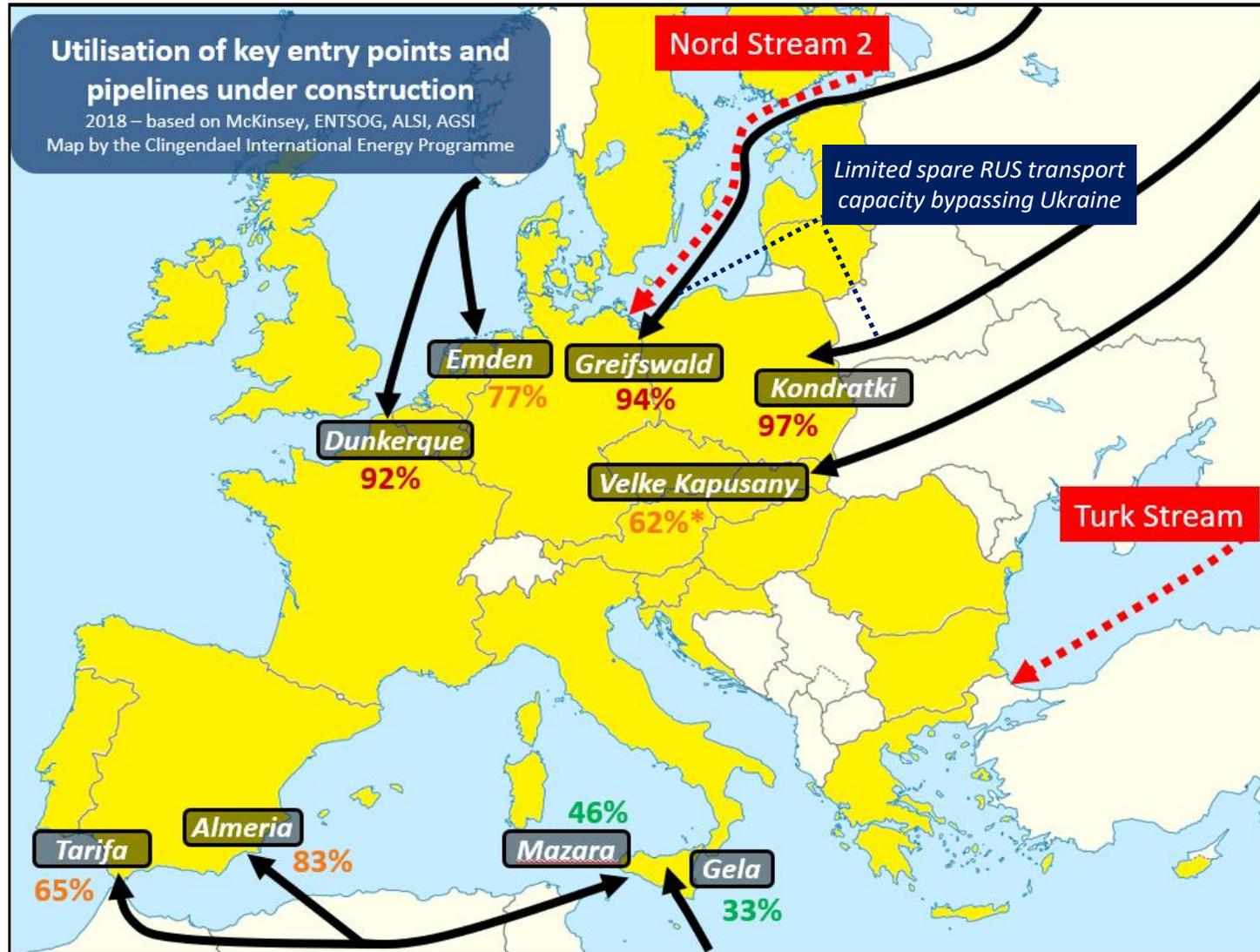
European gas imports are on the rise and will rise further in the coming years

In spite of a generally hostile political climate



Graph by CIEP, IEA data (NPS)

Nord Stream 2 & Turk Stream will increase capacity from Russia bypassing Ukraine



Source: CIEP

U.S. geo-economic/Mercantilistic logic applied to Europe's gas imports

Donald J. Trump @realDonaldTrump
Following

What good is NATO if Germany is paying Russia billions of dollars for gas and energy?
Why are their only 5 out of 29 countries that have met their commitment? The U.S. is paying for Europe's protection, then loses billions on Trade. Must pay 2% of GDP IMMEDIATELY, not by 2025.

12:50 PM - 11 Jul 2018

Donald J. Trump @realDonaldTrump
Follow

...On top of it all, Germany just started paying Russia, the country they want protection from, Billions of Dollars for their Energy needs coming out of a new pipeline from Russia. Not acceptable! All NATO Nations must meet their 2% commitment, and that must ultimately go to 4%!

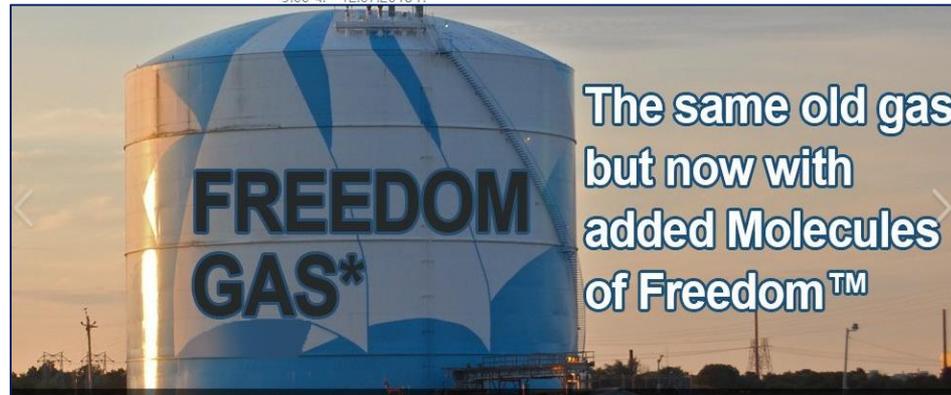
11:12 PM - 11 Jul 2018

Forbes @Forbes
Следване

Germany's purchase of Russian natural gas is making Russia richer--and that's a concern for NATO
on.forbes.com/6016DUVpu



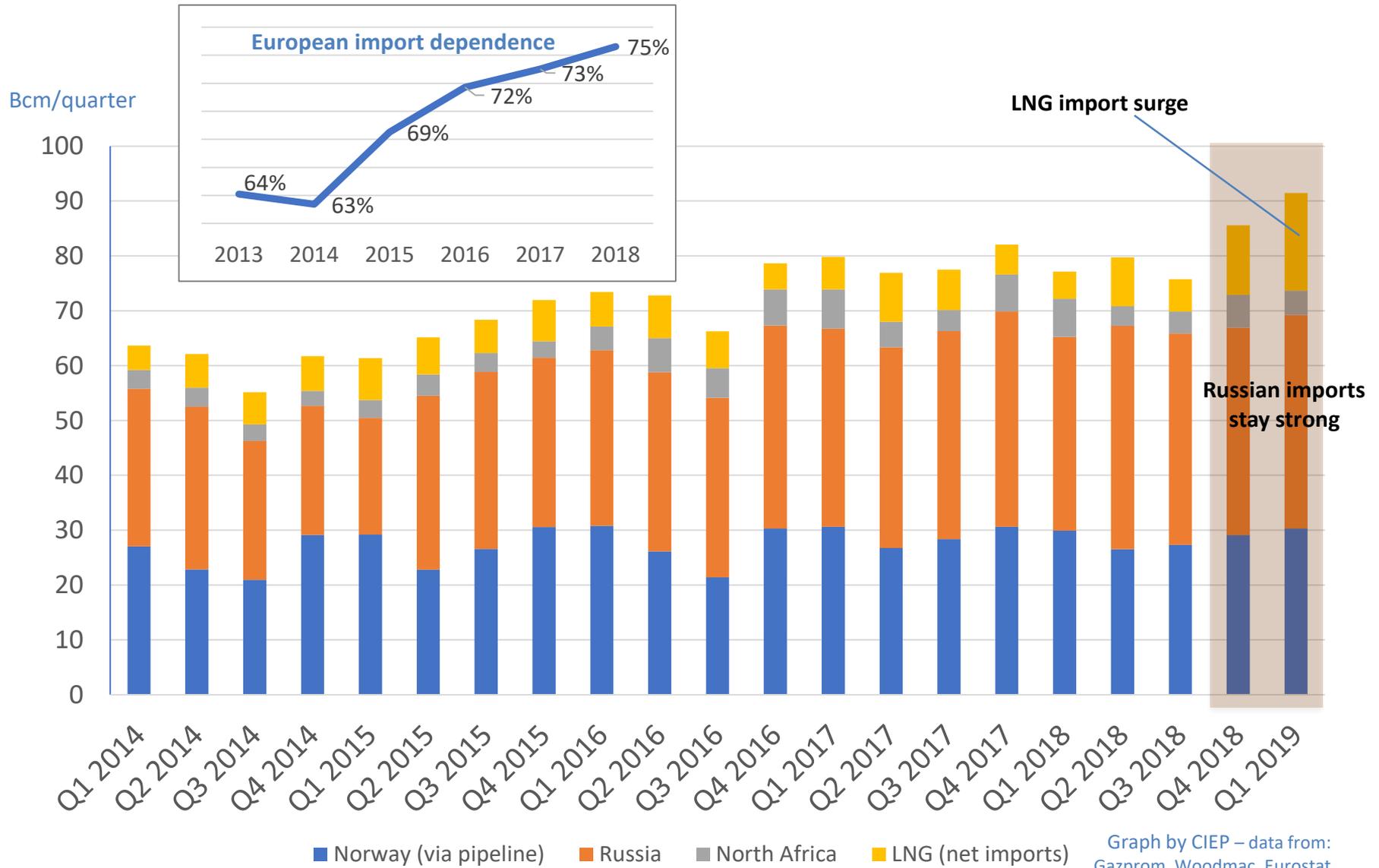
9:00 ч. - 12.07.2018 г.



Western initiatives to affect Nord Stream 2

- Countering America's Adversaries Through Sanctions Act (CAATSA Act)
- Defending American Security from Kremlin Aggression Act (DASKA Act)
- Protecting Europe's Energy Security Act
- Polish antitrust authority (UOKIK) ruling that Nord Stream 2 would restrict competition in the Polish gas market
- Request for a special mandate to negotiate the legal regime applicable to Nord Stream 2 by the European Commission
- Danish legislation providing grounds to block an energy project on security of supply grounds
- Delays in issuing environmental permits in Denmark
- Polish appeal to the ECJ on the European Commission's decision to expand utilisation of OPAL
- Amendment of the Third Gas Directive

EU: LNG imports increased but Russian imports stay strong

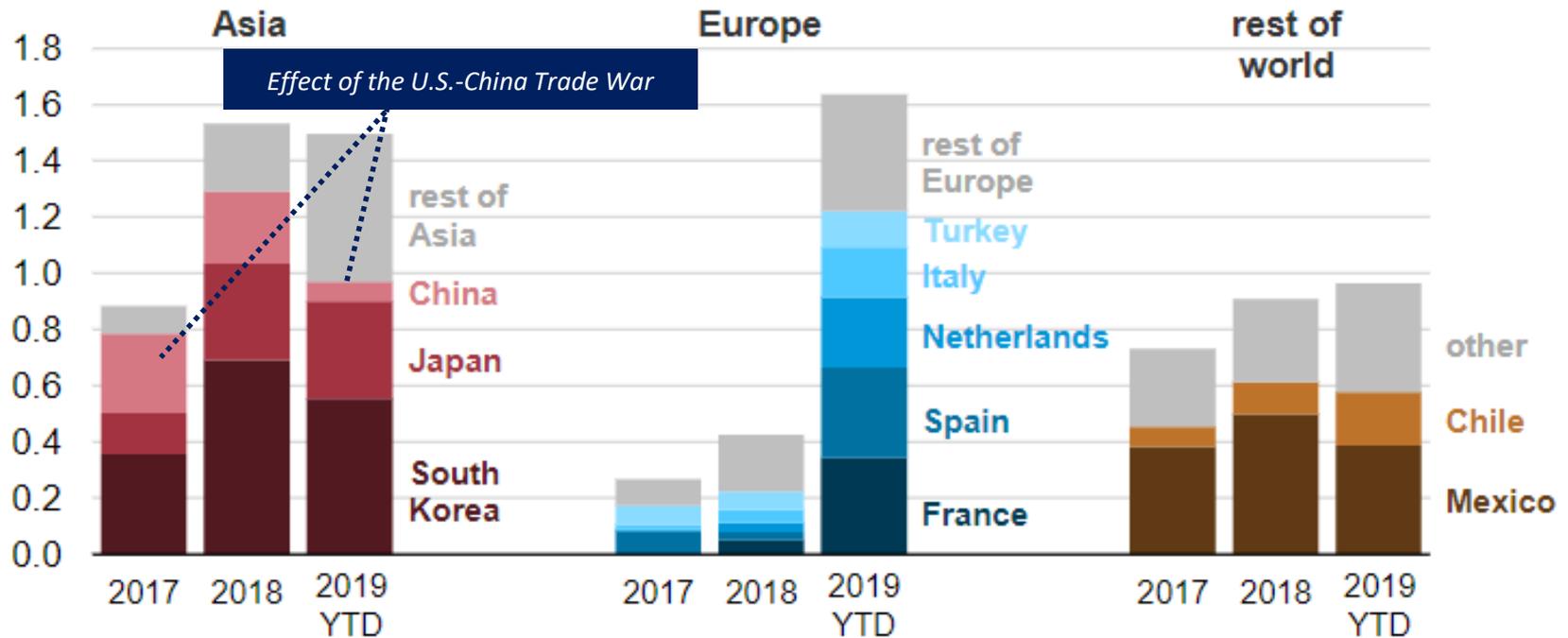


U.S. LNG imports into Europe are growing significantly

If 2019 projections are confirmed, U.S. LNG sales to the EU = ~10% of RUS sales to the EU

U.S. exports of liquefied natural gas (Jan 2017-May 2019)

billion cubic feet per day



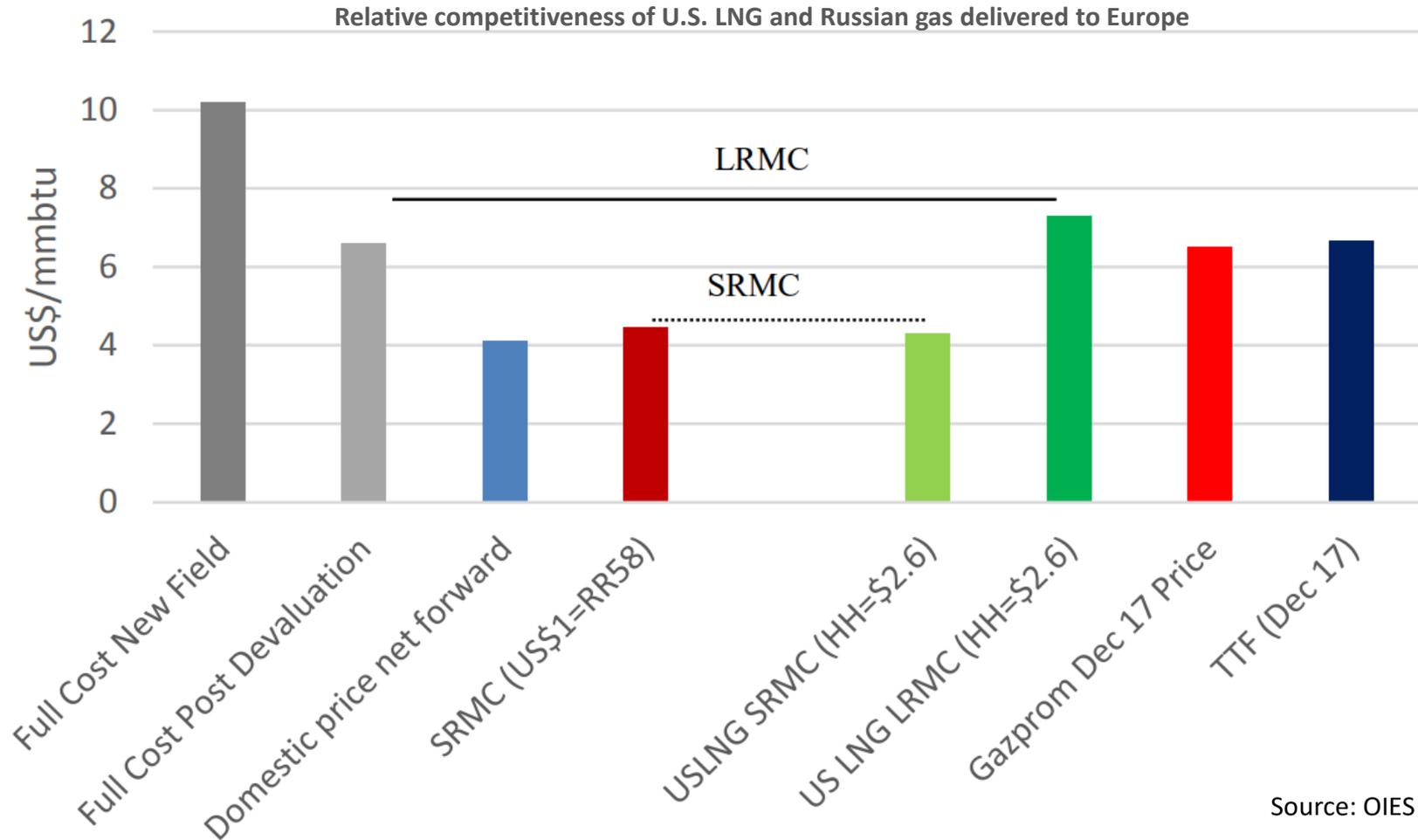
Source: U.S. Energy Information Administration, based on U.S. Department of Energy, Office of Fossil Energy

Note: The 2019 values reflect averages from January through May.

1 billion cubic feet per day = approximately 10 bcm per year

Russian gas or U.S. gas? What's more competitive in Europe?

Russian gas competitive in the long-term, but depends a lot on ruble value & Henry Hub



Yet, this is only part of the story. If Asia resumes to offer higher prices, U.S. LNG is free to go there (except China, if the trade war continues)

Food for thought (and discussion)

- Is Europe's approach to security of supply resilient? What are the challenges?
- Does energy mercantilism really serve U.S./Western interests?
- What if we stop importing hydrocarbons from Russia? Will our security improve?
- Clean Russian molecules: a dream?