South East Europe – Energy Security or Political Expediency?

(importing gas and oil from the Former Soviet Union and the Middle East)

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The views expressed here are the author's and do not necessarily reflect the position of the CGES.

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Outline of the Presentation

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• Oil/gas reserve base of South East Europe vs world regions: **need for imports**

• Is importing oil/gas a **security issue?**

• **Politics (international, regional & local)** distorts markets:

  Sanctions on Libya, Iraq & Iran
  Caspian exports **AVOIDING** Iran and Russia
  US independence from the M East oil
  Europe **NOT importing** gas from Russia
  Domestic political interference
  Multitude of gas/oil **pipeline** projects

• Global **gas market** developments – US, Europe, shale gas…….

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Remembering A Basic Point

- South East Europe (indeed all of Europe) is **not self-sufficient** in oil and gas and **has to rely on imports**
- Oil is fungible and can be purchased in the international market
- Gas market is not yet global; supplies to Europe require dedicated source, e.g. **Russia**, the **Caspian**, the **Middle East** and **North Africa**

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Crude Oil Reserves – Some South East Europe Countries (1 January 2010)

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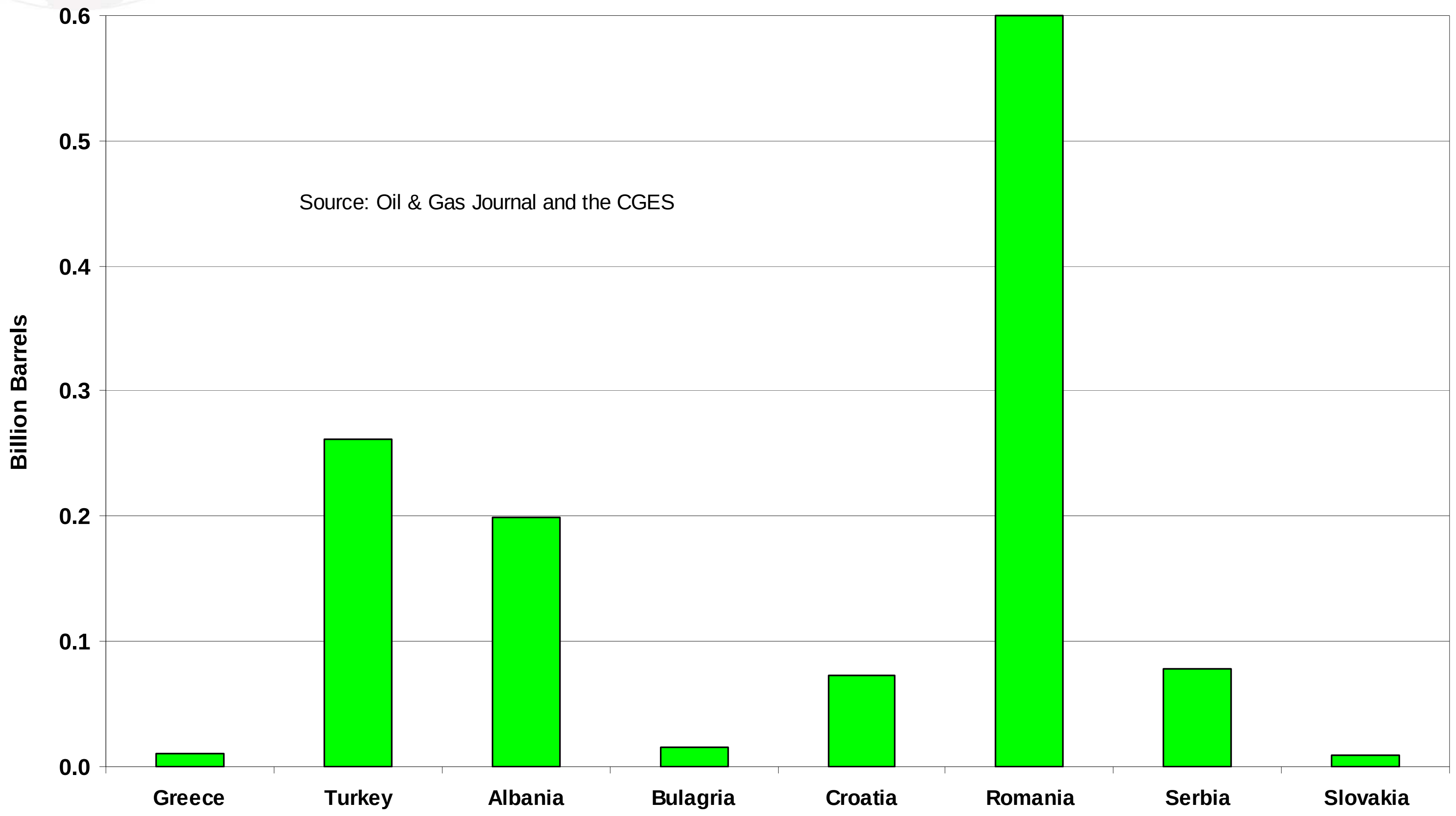

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Crude Oil Reserves - Various World Geographic Regions (1 January 2010)

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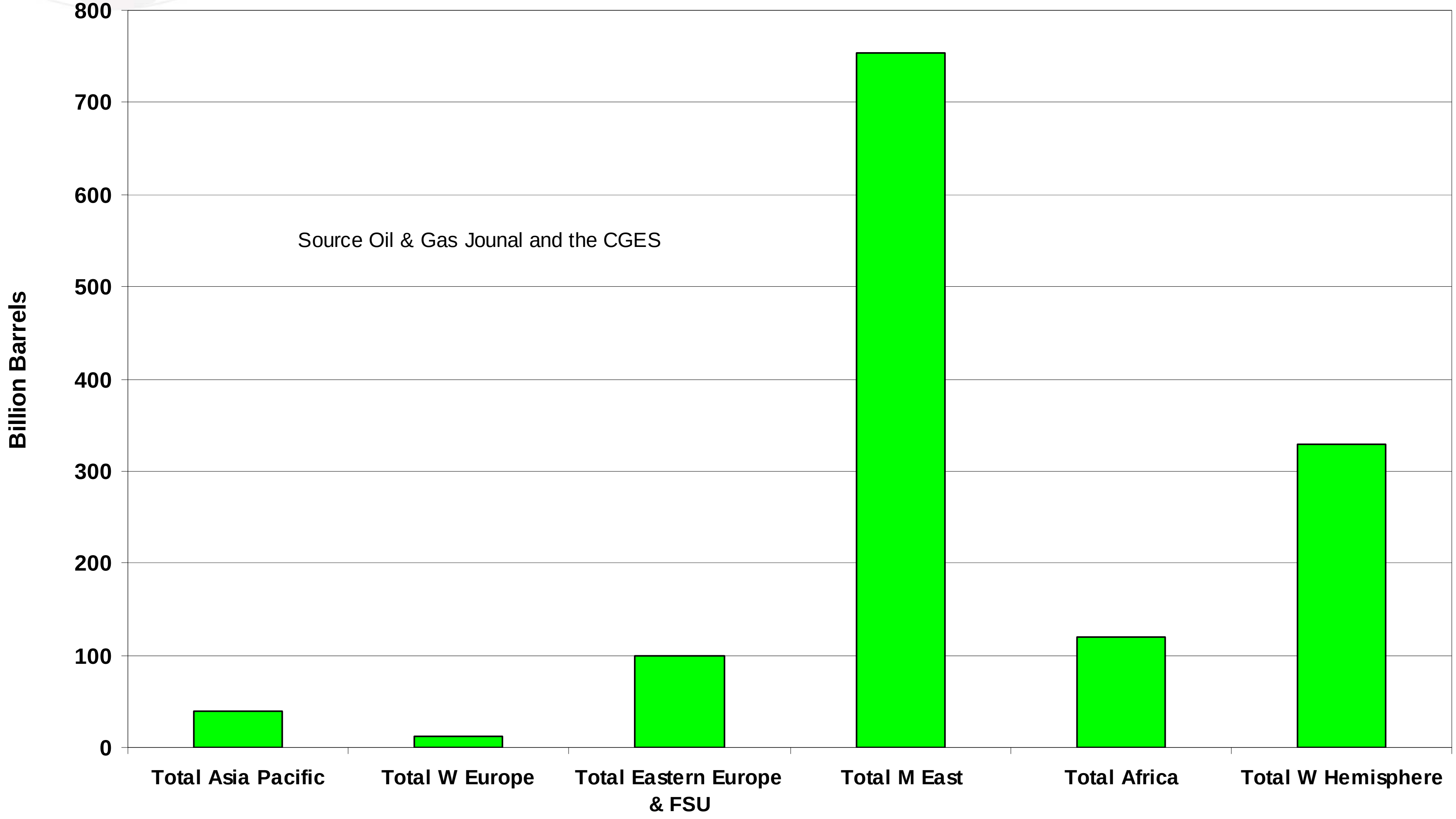

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Natural Gas Reserves – Some South East Europe Countries (1 January 2010)

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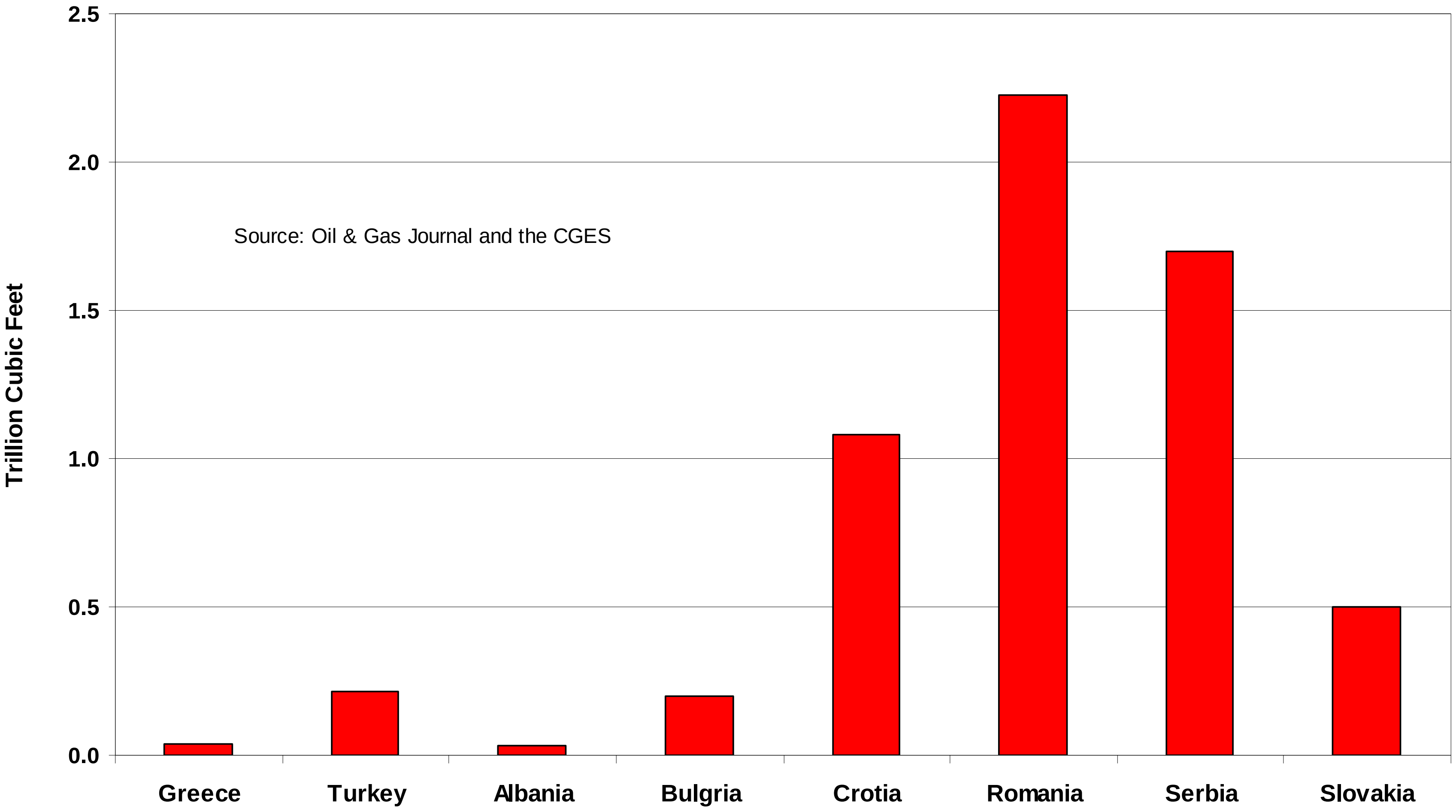

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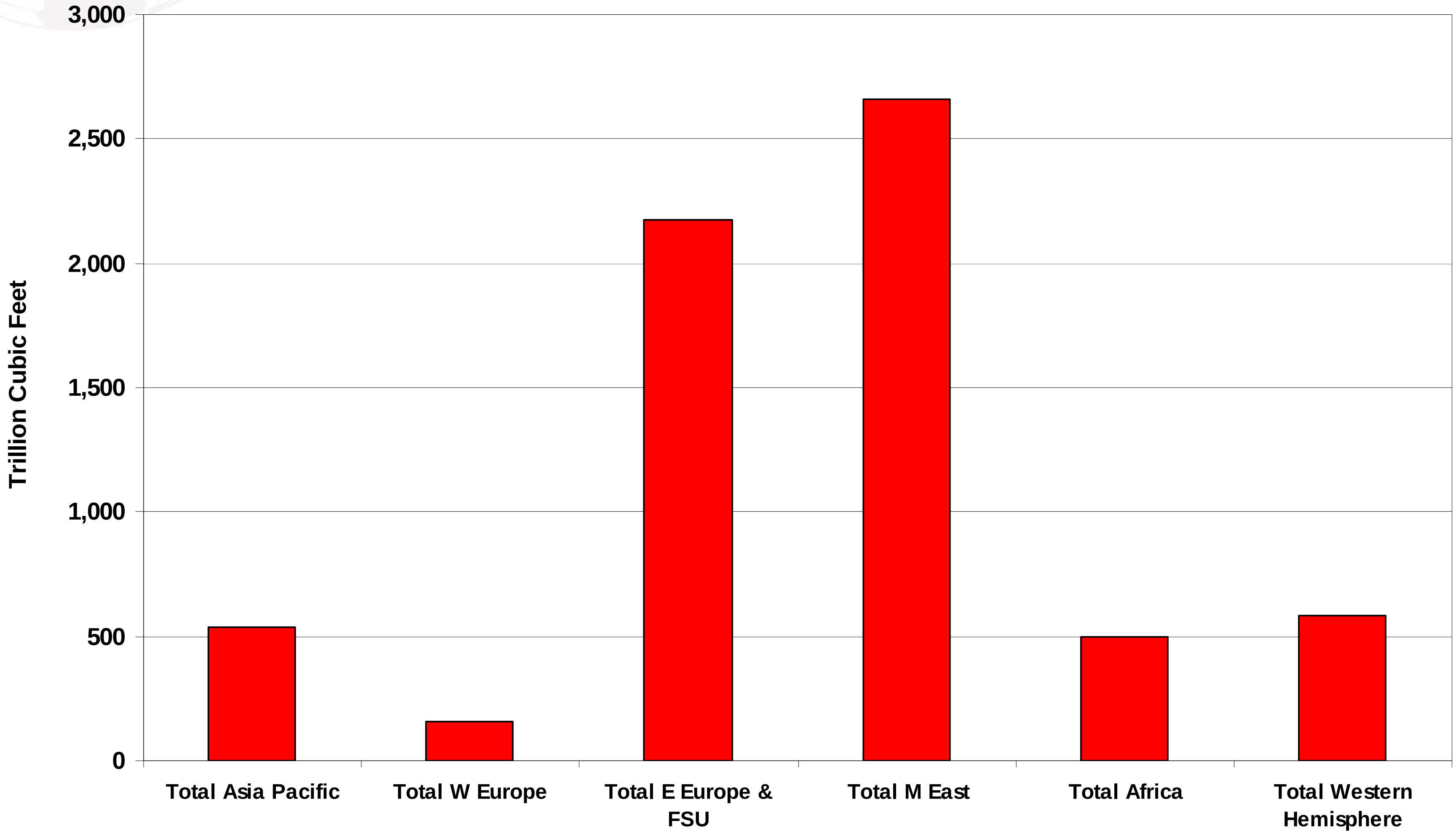

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South East Europe Has To Import Oil and Gas

- Is this:

  An **ordinary international trading** issue?

  or A **threat to security**?

- Today there is **less security concern about importing oil** (though this was a critical issue), but:

- There is **serious political concern about importing gas!**

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Political or Business Priorities in Oil/Gas Transactions?

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- Economics and **business principles** should be the deciding parameters. Transactions should be fair and ‘win-win’ for all parties.

- Undue emphasis on political considerations **distorts** commercial transactions and **increases costs** - energy markets become **unstable**.

- Many examples exist from the past:

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Arab Oil Embargo, Sanctions on Iran, Iraq & Libya

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• **1973 Arab oil embargo** was not an OPEC embargo. However, the media still refer to it as OPEC's. Pressure continues even today on OPEC and all oil/gas exporters.

• **Decades of sanctions** imposed on **Iran, Iraq & Libya** reduced investment in exploration & field development and lowered oil supplies from those countries.

• Without those sanctions oil production from these three countries would have been at least **six million barrels per day greater**, ……… and:

• The rise of oil price to $**147/bbl** (mid-2008) **might not have occurred!**

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Political Priorities in the US

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- Seeking ‘Energy Independence’, establishing ‘US Synthetic Fuels Corp’ and many other policy initiatives in the **1970s & 1980s** were too costly – many incomplete high-cost projects were cancelled, there was too rapid expansion of **nuclear electricity generation**………

- Yet ambitious goals continue: **President Obama** is to save more oil within ten years than the US imports from the Middle East & Venezuela

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Caspian Policy Imperative: Avoid Russia and Iran at any cost!

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• Since the break up of the Former Soviet Union, an overriding political imperative for exporting **oil and gas from the Caspian Basin** has been to **avoid both Russia and Iran** and encourage an '**east-west route**', **whatever the outcome**.

• This has been the most important aspect of public policy ***imposed*** on the international companies and on the newly-independent states.

• *Let me be parochial*: **Baku-Tiblisi-Ceyhan** oil pipeline was **more costly** than **using the existing Iranian network**. In addition, BTC delivers the oil in the **saturated Mediterranean market**. The Iran alternative would have given more direct access to the world's largest growing oil consuming regions of **South Asia and the Far East** (also avoiding exposure to Somali pirates!)

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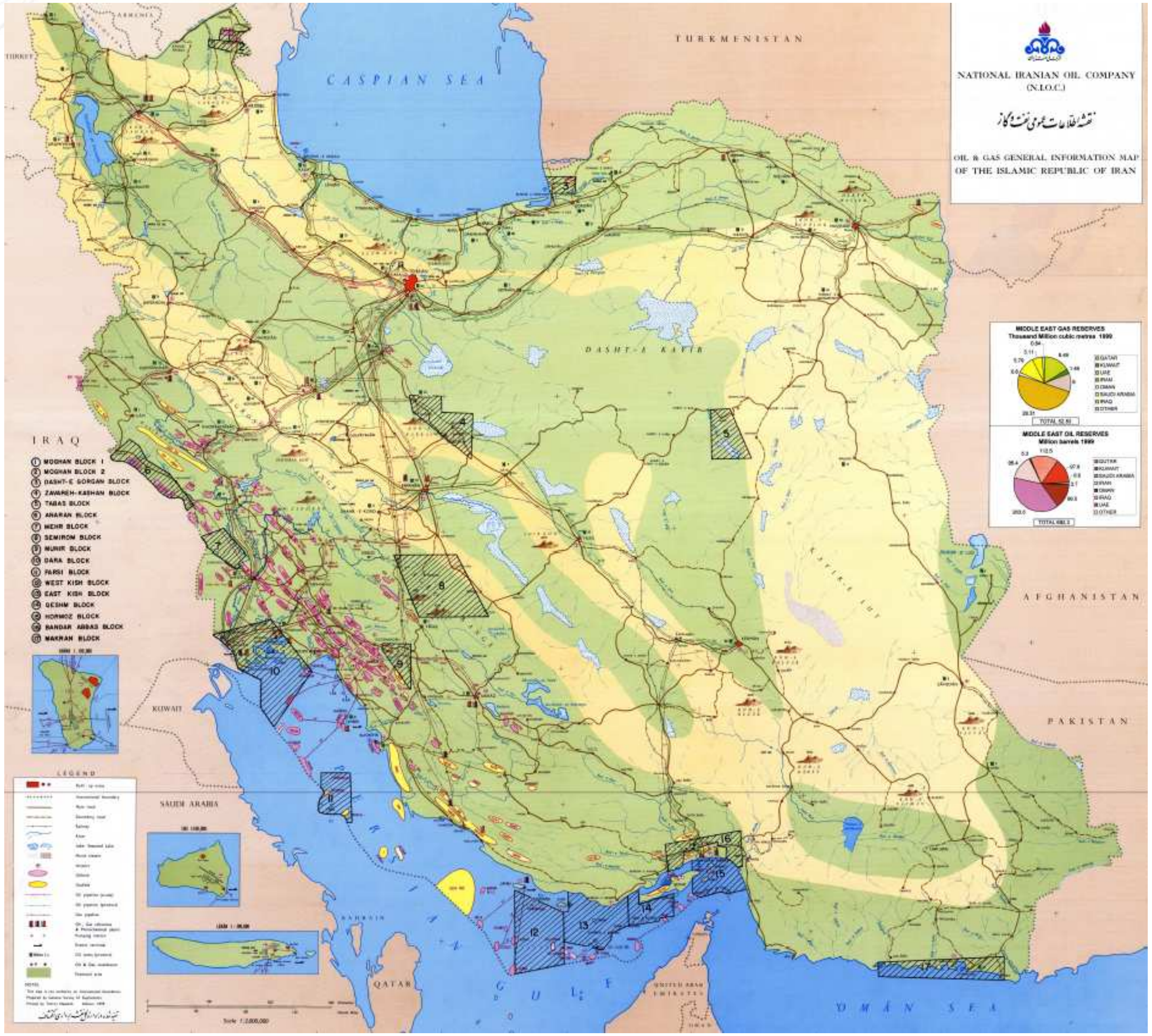
Oil & Gas General Information Map of the Islamic Republic of Iran



(National Iranian Oil Company – Exploration Division) - 1999

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Simplified Oil & Gas Map of I R Iran

(CGES, based on NIOC maps & other sources – 2006)

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Crude Oil Pipelines in the Caspian-Caucasus-Turkey Region

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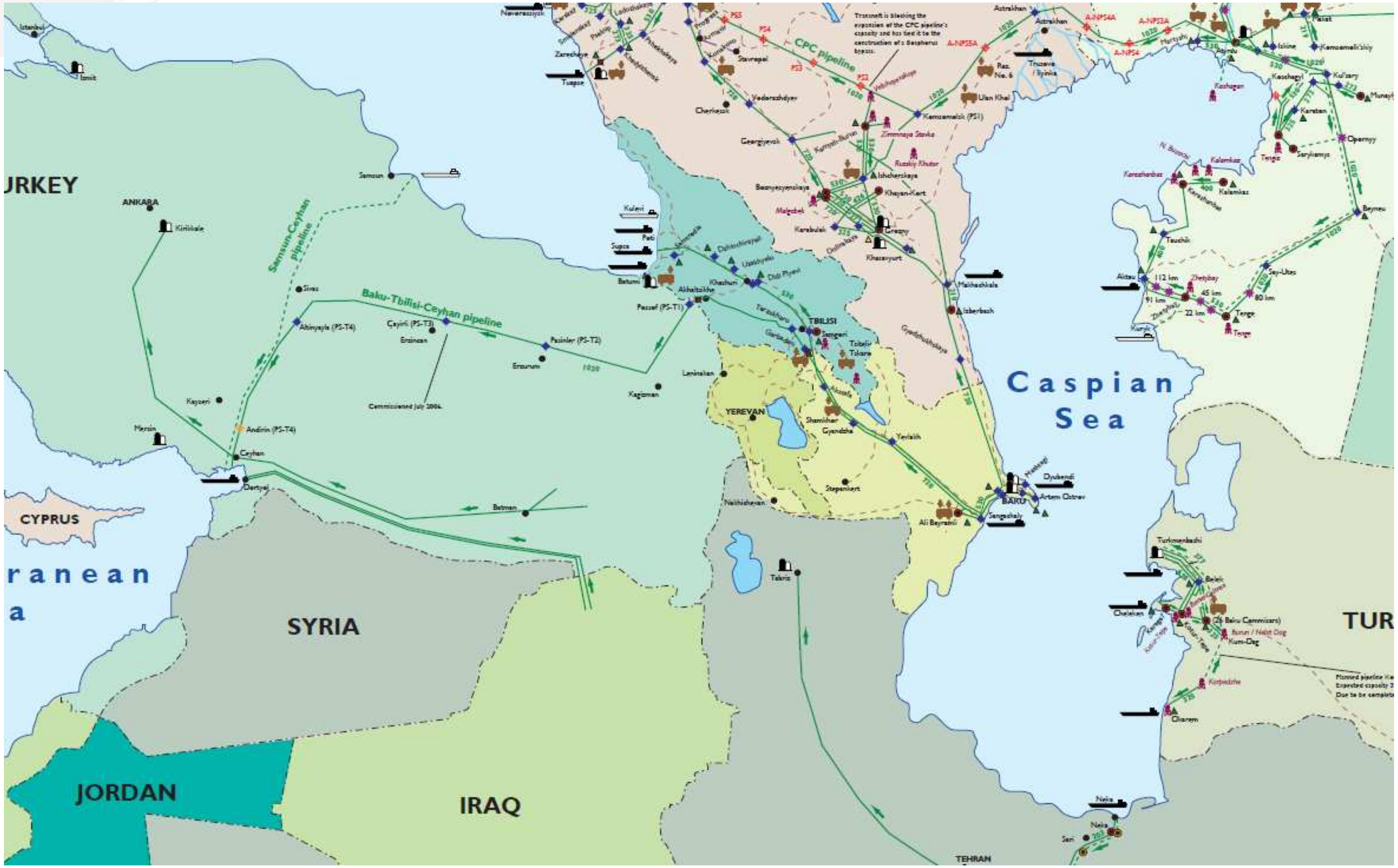

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Two Kazakhstan Oil Export Projects

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- The **CPC oil pipeline** (Kazakhstan oilfields to Novorossiysk) took years of negotiations before it could be built. Planning for **its expansion** (to 1.44/1.63 mbpd by 2014) took **six years to reach agreement** in December 2009. It will cost **$4.5 bn** ($3-3.5 bn 2008 estimate).

- Negotiations since 2005: **The Kazakhstan Caspian Transport System** - 1.5 mbpd (from Kashagan & Tengiz fields piped to Kuryk on Kazakh side & shipped to Garadagh on Azeri side). It could take **years to finalise agreements!**

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Burgas – Alexandroupolis Oil Pipeline

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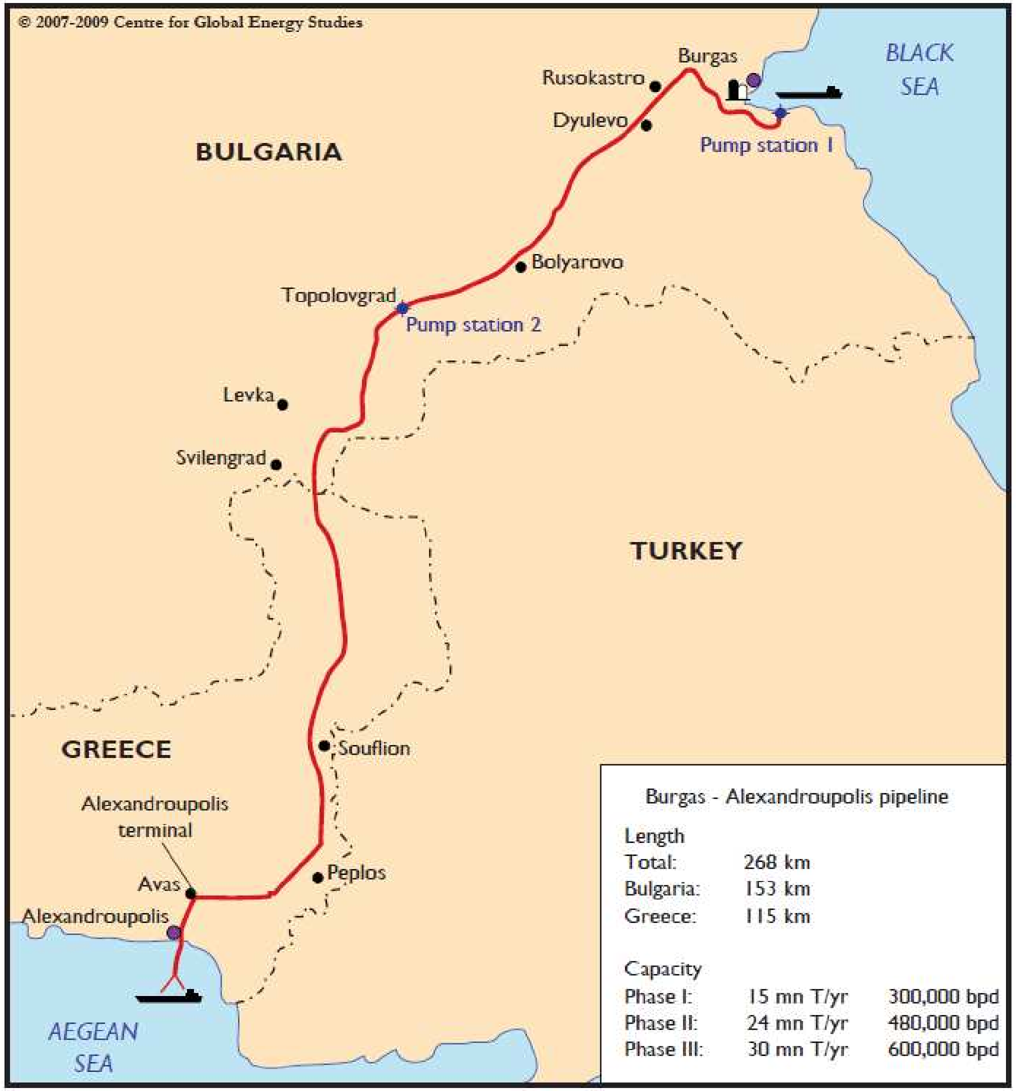
Russia requiring the use of this line (not yet built) for the expansion of the CPC line in Kazakhstan?



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Gas Imports From Russia, the Caspian, the M East …….

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Importing Gas to Europe

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• The temporary disruptions of Russian gas through **Ukraine and Belarus** in recent years:

Were **mostly commercial** disputes
not Political pressure on Europeans

• **Europe** has been **importing Russian gas since 1980s** with no interruption of gas flow even during the break-up of the USSR

• Nevertheless, international politics HAS BEEN & IS exerting pressure and distorting gas imports **from Russia, Iran, the Caspian and the M East**

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Gas Pipeline Routes: Caspian/M East to Europe

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- Turkmenistan **trans-Caspian** line to Azerbaijan?
- Land route: **Turkmenistan through Iran** to Turkey & Europe?
- Expanding **Iran gas line** to Turkey / building new line?
- **Qatar** pipeline/LNG to Europe?
- Expanding **Baku-Tiblisi-Erzerum** gas line to Turkey & Europe?
- '**Nabucco**' Azerbaijan (and Iran) to Turkey & Europe?
- '**White Stream**' Azerbaijan gas to Balkans?
- '**South Stream**' Russian gas to Balkans?

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Gas Pipeline Routes: Caspian/M East to Europe (2)

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• **Russia-Ukraine** agreement on existing transit lines making South Stream redundant?

• Impact of '**Nord Stream**' Russia-Germany Baltic Sea route (under construction) on the above?

• Using the announcements of planned pipelines in order to exert **pressure in the negotiations** for competing routes?

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Gas Pipeline Routes: Caspian/M East to Europe (3)

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• **Azerbaijan/Turkey** sensitivity on Armenia, delaying agreement on the transit of gas from the new phases of Shah Deniz field.

•**Russia/ Ukraine** leaders agreeing on gas transit together with Crimean naval base deal

• **Russia/Belarus** leaders…

• Lastly, **China** investing in field development and building pipelines from Central Asia to China

• Examining the above: whether we like it or not, **politics has been and is** playing a major role in the Caspian/M East oil and gas reaching Europe.

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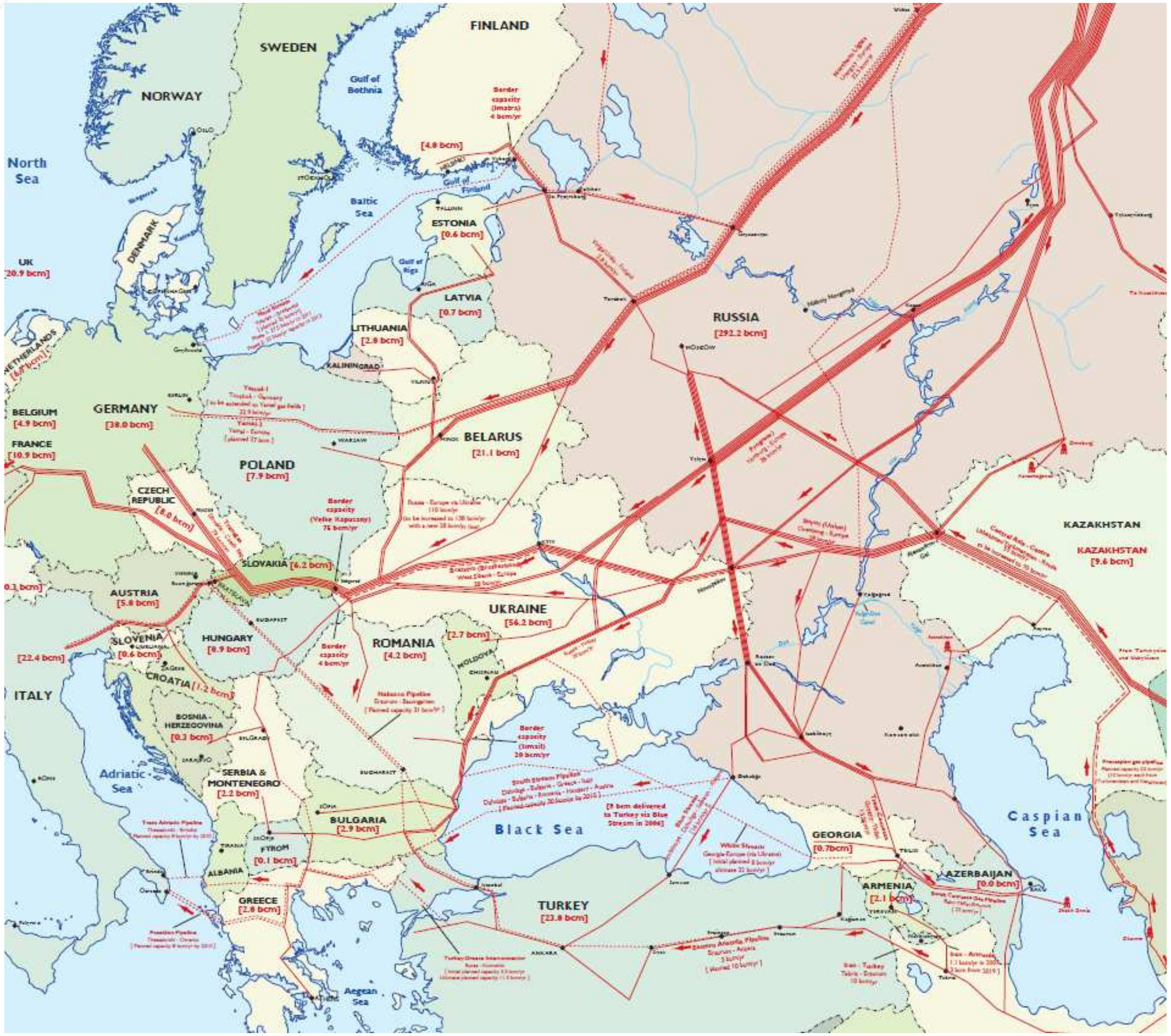
Gas Export Pipelines of the Former Soviet Union



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Gas Export Pipelines – Black Sea and Neighbouring Areas

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Not Only International Political Interference

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Domestic and regional politics did and continue to interfere unduly in the oil/gas industry:

- Public suspicion on 'oil companies' - legacy of former concessionaires
- Competition among political factions
- Populist policies for domestic consideration
- Extreme resource nationalism
- Using oil as a public policy tool
- Sensitivities between neighbouring countries
- Ukraine politicians' competition in solving the stand-off in 'annual' Russia/Ukraine gas negotiations

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Examining the World Gas Market

A New Source of Natural Gas for Europe?

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Gas Market in Europe

- The **US gas market** has been deregulated for some decades.

- The **UK gas market** is now open.

- **Continental Europe** is gradually developing into a liberalised gas market. However, the **national utilities** still give priority to their domestic markets and enjoy some support from their governments.

- Global recession HAS **reduced demand** for gas.

- The **spot market** is expanding and **spot prices are lower**, putting **pressure on long-term (take-or-pay)** contracts for price reviews, ……..

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Gas Supply Increase in the US & 'Overflow' to Europe

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- In the last few years, **US** gas production has been increasing rapidly due to growing contribution of **shale gas** – from **1 bcfd** (2000) to **11 bcfd** (2010) (cf. 60 bcfd total US production). **Gas prices have come down**.

- LNG receiving terminals (US, UK, ...) are underutilised. There are **surplus cargoes** in the global LNG market & overflow to Europe and other areas.

- The **spot prices** are sometimes **50% below** the term-contract **(oil-related) prices**.

- Algerian Minister called for reducing the volume of gas sold by gas exporters - **an OPEC-style** production programming?

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Some Estimates of Shale Gas Recoverable Resources

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Area	Trillion Cubic Feet
US (5 basins)	475
Canada (2 basins)	240
Sweden (Alum Shale)	10
Poland (Silurian shales)	100
Austria (Mikulov Shale)	30

Source: V A Kuuskraa, 12 December 2009

Will future European shale gas production be similar to the US? (different geology, populated areas, limitations in logistics & specialised services, environmentalist lobby, but ……..)

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Some Conclusions

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- South East Europe **HAS to import** oil and gas
- Supplies could be from **Russia, the Caspian, the Middle East and North Africa**
- **Business principles** should lead. **Political considerations** should be minimised
- European gas market is **opening to free competition**
- Gas **prices have decreased** – lower demand from global economic recession & higher supply, e.g. US shale gas.
- Cautious optimism for **shale gas from Europe's** sedimentary basins
- For SEE: **oil** is easily purchased in the international market & **gas** can be imported from many sources **provided business principles prevail**

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