Energy and geopolitics
Changing relations in the new energy landscape

Climate, Markets, Growth & Stability

Christof van Agt, Wednesday the 23rd of May 2013
TU/e Energy Days Day 8 Energy and climate: challenges and possibilities
A new energy and political landscape
Beyond ´resource nationalism´ and supply concerns?
After the commodity boom the price trend fracture

Worlds apart awash with gas?

Crisis, unconventional sources, varied markets structures and preferences drive price disparity between US, EU & Asia

BP Statistical Statistical Review of World Energy 2012
Markets about to be overtaken by unconventional?

Sharpen competition for market share & price stability


* Project delivery and technology deployment as a function of market conditions

CLINGENDAEL INTERNATIONAL ENERGY PROGRAMME | CIEP
Key Trends & Changing Relations
Shaping a new market and geopolitical environment
Governance challenges: Technology

* Rising dependency on ever more complexity augment residual risk impacts & rebound effects
Governance challenges: systemic asymmetries

“the world of 19th century principalities”?

* Ultra High Asian and European vs. Ultra Low US gas prices

“global or regional gas markets”? 
Governance challenges: Transit & **Good Luck** Solidarity

*Condition precedents in periphery manage markets & entrench business models: challenged more sharply in new environment*
Go Caspian!

Global integration of Caspian economies

Open multilateral frameworks remain key and should regain momentum

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Clingendael International Energy Programme | CIEP
Governance challenges: Stability
Norms & values in relation to energy and resource policies and co-dependencies

* Universal values & norms
Carried in a multilateral or multipolar system?
Governance

Managing multi-level transitions into the 21st Century

- Policy perceptions and mind sets
- Rules and goals
- EU post 2020 positioning
- Institutions and ad hoc frameworks
Energy Governance Mind-sets
‘Real Politik’ versus the appeal of values & norms, cohesion & consistency

1989 2001 2050...

Market transition & globalization
Positive-sum outlook
Rule of Law & Humanist values

Geopolitics & de-globalization
Zero-sum outlooks, Crisis Risks and Catastrophic Climate Change

(Re) Assertive regional outlooks
Resource Scarcity & Price Spikes
Sharp emergence of Asia-Pacific

* The future isn’t what it used to be

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* or back to the future seen before
G “Something”
Leads *de facto* or *de jure*

From rule based to principle & fluidity
‘Enough Binding Rules - More Shared Goals’
2030 Climate & Energy framework

´Early Agreement is necessary´

- Long-term Investment cycles need predictable and stable environment
- Green growth and innovation for employment and competitive edge
- International engagement on post Kyoto climate agreement & CCS

Accommodating changing environment and atmospherics

- Consequences of economic crisis
- Budget constraints hampering long-term investment
- New opportunities and risk in world energy markets (shale – nuclear)
- Affordability and competiveness (social economic implications)
- Changing attitudes of partners on emissions (Russia’s & Canada’s withdrawal)

* New synergies & trade offs between competitiveness security of supply and sustainability
Key International ‘Energy’ Governance layers & Institutions

Multilateral cooperation
UN, UNFCCC/IAEA, WTO, IMF-IFC-WB,
Energy Charter, IRENA, EITI, IEF,

Regional integration
EURATOM, OECD-IEA/NEA, EU/EIB, EBRD

Multipolar competition
OPEC, GECF, OSCE, NATO, SCO, CSTO...CDC

Modernization key to overcome rigidities and accommodate new realities

UNSC unanimity
UNSC veto
Instant Governance
Trend: informal & ad hoc

‘Friends, Govern Yourself & ‘Hyper-transparent’ Media-Cyber Dynamics
Russia - EU Gas market dynamics
In a newly emerging environment
Russian capacity to Europe by pipeline to volume

Build for market share but supply to defend prices?

Source: CIEP analysis by Tom Smeenk, based on Gazprom information; Victor and Victor, [2006]
Updated and adjusted with data to 2012

- Existing pipeline import capacity in bcm/y
- Committed pipeline import capacity in bcm/y
- Export volumes to non FSU Europe and Turkey

* 2020 Export potential to non FSU Europe and Turkey

Gazprom Export

- Existing pipeline import capacity: 175 bcm/y
- Committed pipeline import capacity: 33 bcm/y
- Export volumes: 30 bcm/y
- Supply Projection: 190 bcm/y
- Contract Maxima: 220* bcm/y
- Contract Minima: 150 bcm/y

Total Russian existing, committed and planned pipeline capacity to Europe and Turkey:

- 1990: 140 bcm/y
- 1995: 30 bcm/y
- 2000: 63 bcm/y
- 2005: 337 bcm/y
- 2010: 274 bcm/y
- 2011: 63 bcm/y
- 2012: 63 bcm/y

* New strategic capacity to buttress eroding long-term contracts and demand security
Russian gas production
Markets trending towards new tipping points

Rising independent production competes on domestic market could squeeze out Caspian gas further on to Asian and European markets *de facto* challenging export monopoly
Meanwhile in Ukraine
Demand side response to price pressures kicking in

* Not shale or black sea offshore but efficiency, fuel switching and reverse flows tilt balances to which Russia is no exemption when domestic prices swing upwards

IEA/OECD 2012
CAPEX in Russia rises in the East too

Blue growth: social economic development, gasification & exports to markets

“In October 2012 Gazprom adopted the final investment decision on pre-development of Chayandinskoye field, construction of the Yakutia – Khabarovsk – Vladivostok gas trunk-line as well as gas processing facilities in Belogorsk” - long-term contracts?

Source: Gazprom
Preliminary Findings

Too big to fail

• Gas market liberalization “a la Russe” manifest through independents and power/industry market reforms - not just by rules but rather by relations-

• This remains obscured by EU-Russia policy and regulatory conflicts (3rd package, anti-trust) that will endure (without a usable framework in place) well beyond the term certainly of this Commission

• In practice markets align leading to more short-term volatility and uncertain returns for incumbents taking on more market risk while CAPEX rises across the board (e.g. estimated € 50 billion for Full Southern Pipeline Corridor)

• Gazprom, the incumbent on both CIS and EU market overstretched and triangulated between sharpening market competition, rising cost, public service obligations and aspirations on Far Eastern market as a relative new entrant.

* But not too big to restructure
New seismic risks, opportunities and developments

Global

• Iran’s eventual return to market, Iraqi and non-OPEC oil output rise, in combination with widening gas to gas/inter-fuel/renewable competition, demand side responses and austerity point at ample supply and sustained downward price pressures.

• Producer state budget dependency on oil & gas revenues are challenged. This may prompt action to defend prices- or actions to maintain market share & modernize inter alia diversifying into non energy sector (WTO OECD membership)

• Fiscal stability, rule of law, values norms & socio economic diversification (capturing more value in petrochemical/refining and manufacturing industries) will move higher on governments agenda’s

• Risk of producer-consumer relations exit ‘comfort zones’ in short to medium term until markets have settled and/or gained sufficient insight in new emerging environment

* EU-Russia competition case is seized either as a confidence building measure or will be settled with an outcome irrelevant and long surpassed in the new market setting.