

**Regional Energy Cooperation and  
the Energy Charter Process:  
the increasing role of Russia, gas and transit issues**

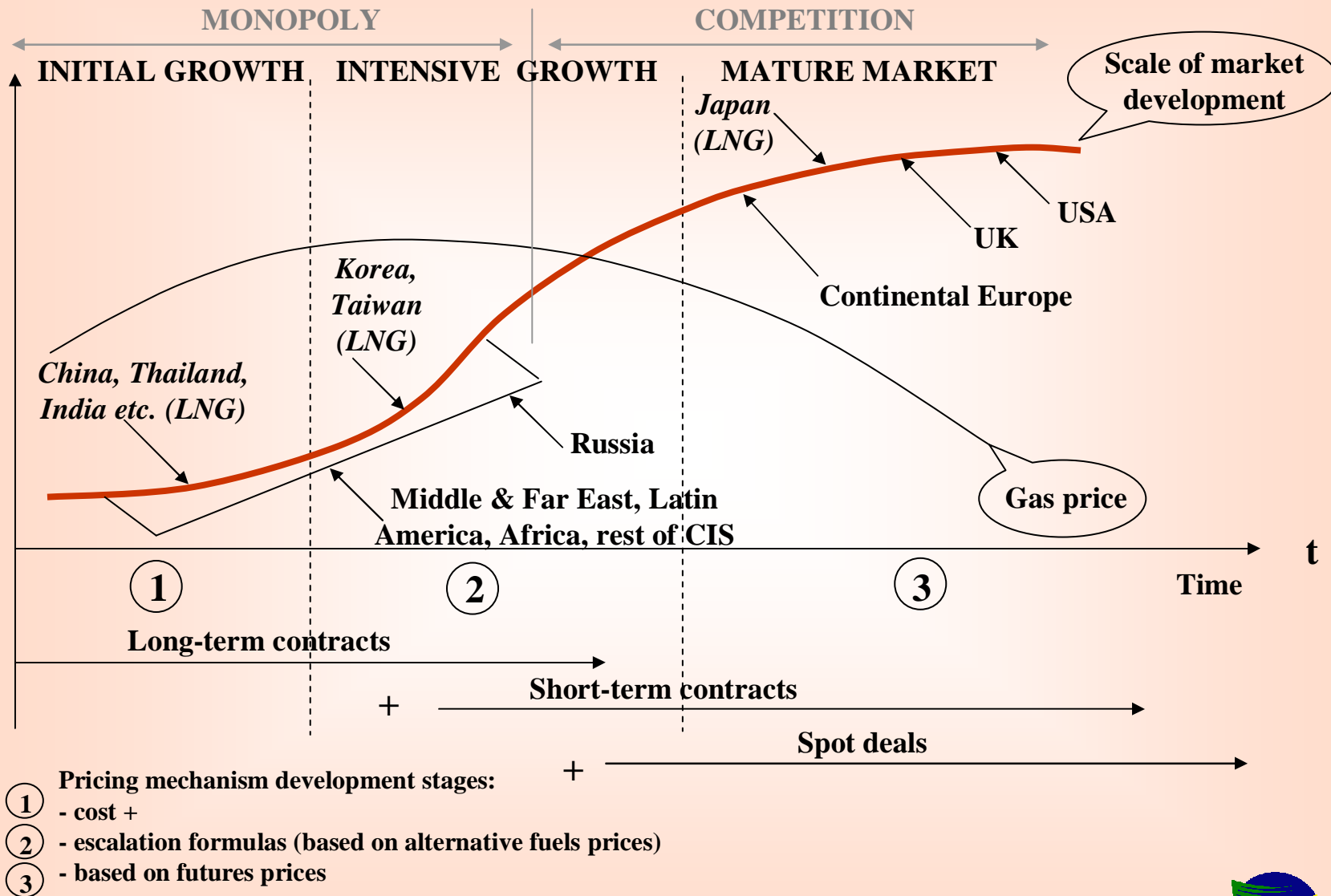
**Dr.A.Konopljanik  
Deputy Secretary General  
The Energy Charter Secretariat**

**Halki International Seminars 2002: Forging Regional Cooperation**

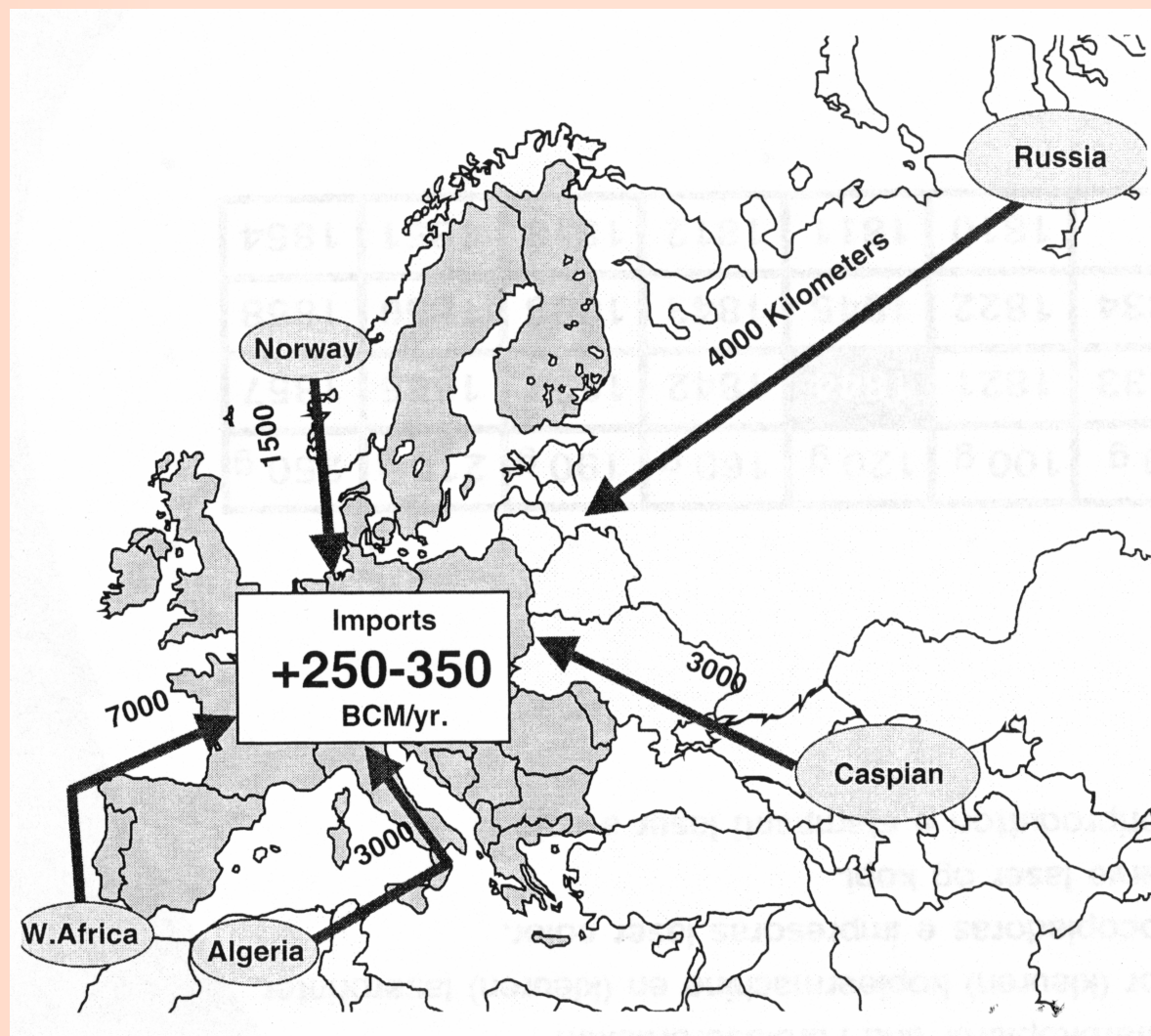
**11-16 September 2002, Halki, Greece**

***Session 02.3 Energy Challenges in the Black Sea, the Caspian, and Central Asia:  
Promoting Regional Cooperation***

# EVOLUTION OF GAS MARKETS DEVELOPMENT



# EUROPEAN GAS MARKET OUTLOOK



**By 2020:**

- **Demand up 200-300 BCM/yr**
- **Imports up 250-350 BCM/yr**
- **New investments 250-300 billion \$**

Source: J.V.Genova/Exxon Mobil

# RUSSIAN GAS IN EUROPE

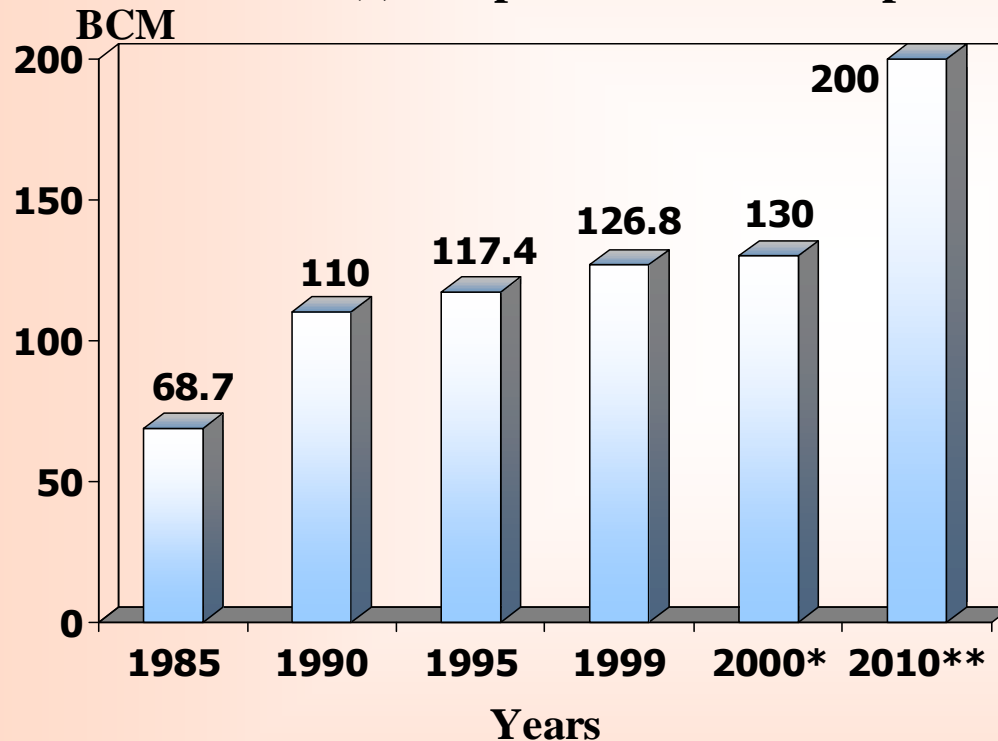
## (a) Share of Russia in gas consumption:

All Europe	>25%
Central & Eastern Europe	40%
Eastern Europe	>90%

## (b) European importers of Russian gas

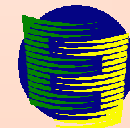
- Austria
  - Belarus
  - Bulgaria
  - Bosnia
  - *Hungary*
  - Germany
  - Greece
  - Italy
  - *Latvia*
  - *Lithuania*
  - Macedonia
  - Moldova
  - *Poland*
  - Romania
  - *Slovakia*
  - *Slovenia*
  - Turkey
  - Ukraine
  - Finland
  - France
  - Croatia
  - *Czech Republic*
  - Switzerland
  - *Estonia*
  - Yugoslavia
- TOTAL: 25**

## (c) Gazprom sales in Europe



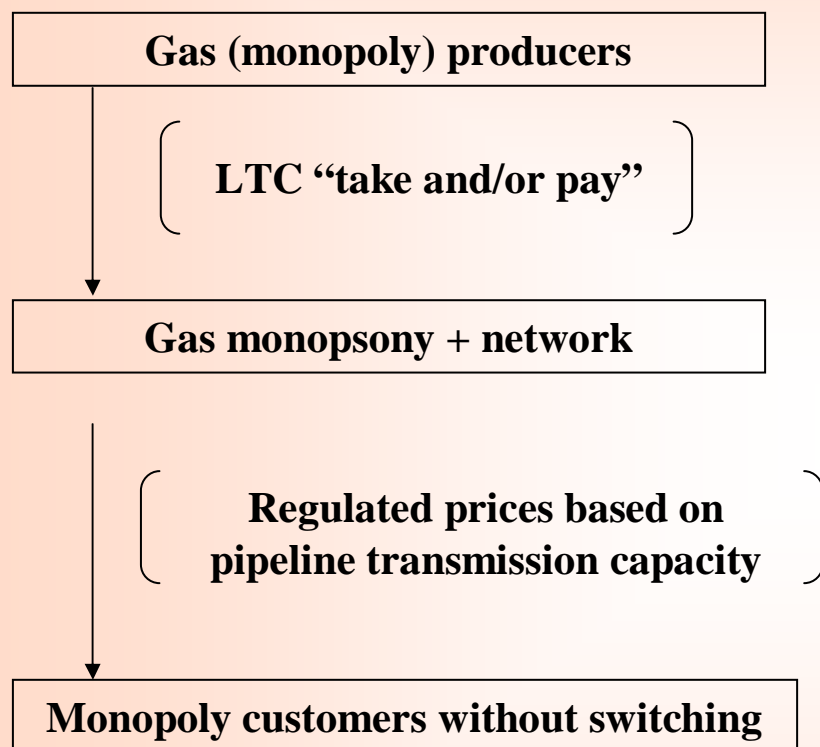
\* Estimate

\*\* Forecast



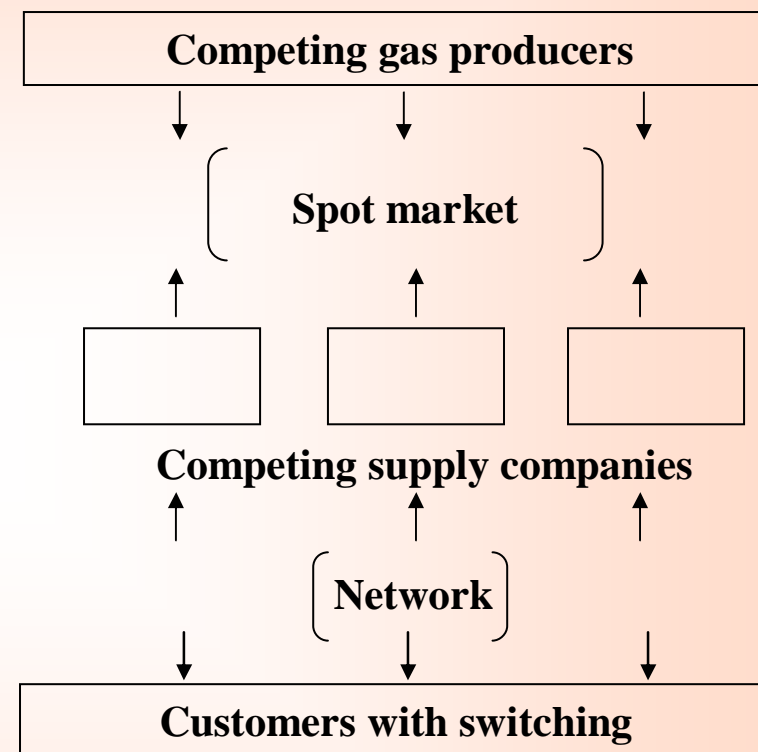
# LONG-TERM CONTRACTS AND COMPETITION IN GAS MARKETS IN EUROPE

(A) Existing organisation of the market

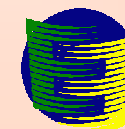


Supply-based consumer prices defined by monopoly producers and suppliers (pricing mechanism: cost-plus; escalation formulas)

(B) Future organisation of the market



Demand-based producer prices defined by consumers (pricing mechanism: spot + forward + futures)



## **GAS: DIFFERENT PROJECTS – DIFFERENT CONTRACTS**

(1) New projects in mature regions with existing infrastructure, with available transportation capacities (usually less capital-intensive projects, relatively small to the existing market) =

(a) short-term contracts (“take and/or pay”) – for the duration of payback period (?)

(b) spot deals – when payback period is over (?):

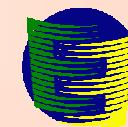
- dated
- forward
- futures

Regions: Western, Central & Eastern Europe

(2) New projects in new regions with no/lack-of infrastructure for both production and transportation (usually more capital-intensive projects, relatively big to the existing market) =

(a) long-term “take and/or pay” contracts

Regions: Russia, CIS, Asia



# **GAS: LONG-TERM TAKE AND/OR PAY CONTRACTS (LTC TOP) AND PROJECT FINANCING RISKS**

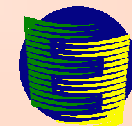
$$\text{Financing} = f(\text{revenue}) = f(\text{volume} \times \text{price})$$

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- (1) LTC TOP = mechanism of supply risks («volume» risks) reduction**
  - (2) LTC TOP + adequate pricing mechanism = mechanism of “price” risks reduction:**
    - prior to exchange pricing: escalation formulas**
    - exchange pricing: futures + hedging**
- (1) + (2) = mechanism of project financing risks reduction (long-term capital-intensive Greenfield projects, i.e. in new regions with no/lack-of production & transportation infrastructure)**
- 
- 

**LTC TOP as a mechanism of risks reduction related to investments into new (Greenfield) gas projects yet has no alternatives at the emerging energy markets**



## LONG-TERM CONTRACTS

**Item 22: “Long-term contracts will continue to be an important part of the of the gas supply of Member States and should be maintained as an option for gas supply undertakings in so far as they do not undermine the objectives of this Directive and are compatible with the Treaty, including competition rules.”**

**Source:**

**Amended proposal for a**

**DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL**

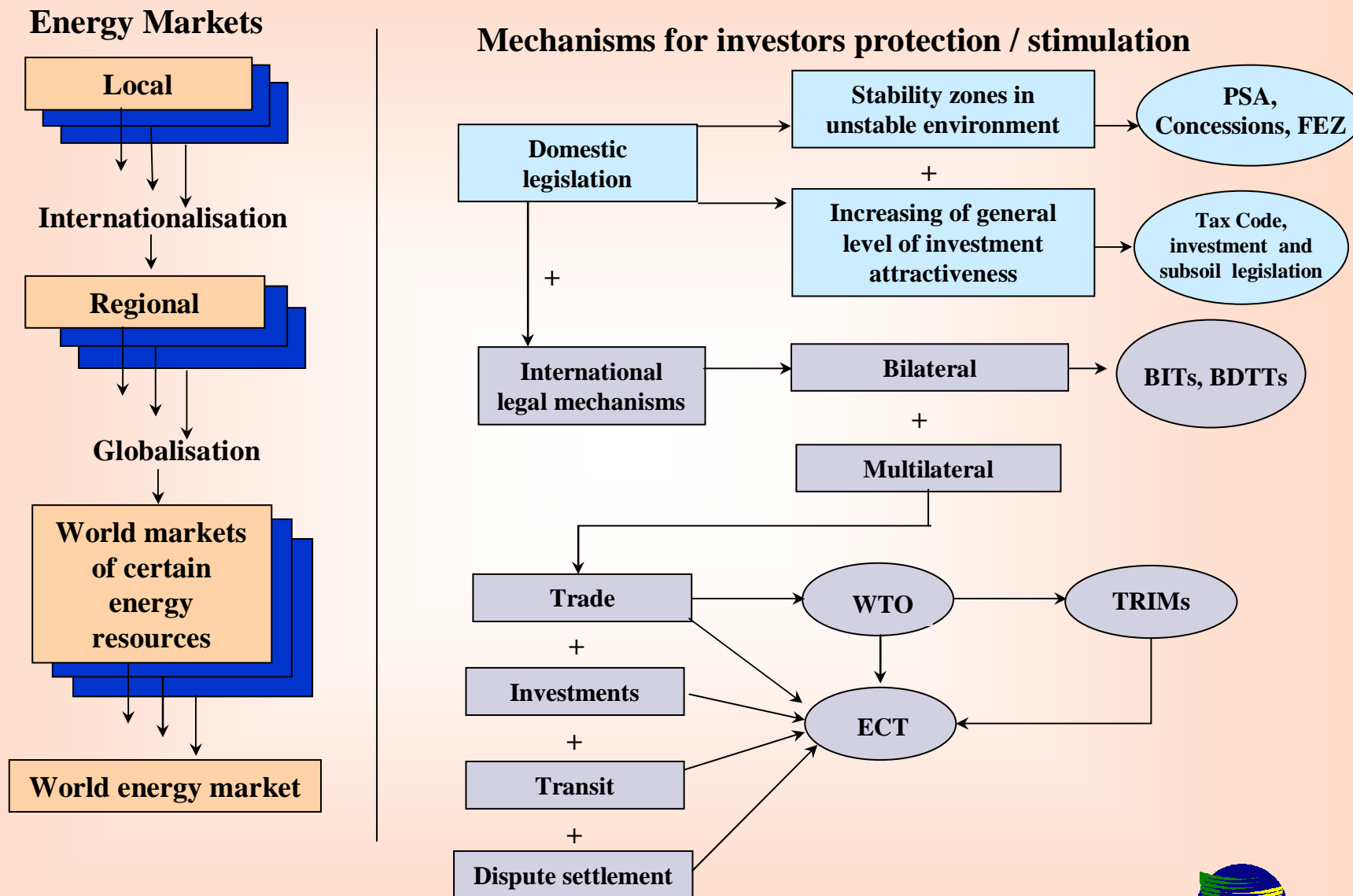
**amending Directives 96/92/EC and 98/30/EC concerning rules for the internal markets in electricity and natural gas**



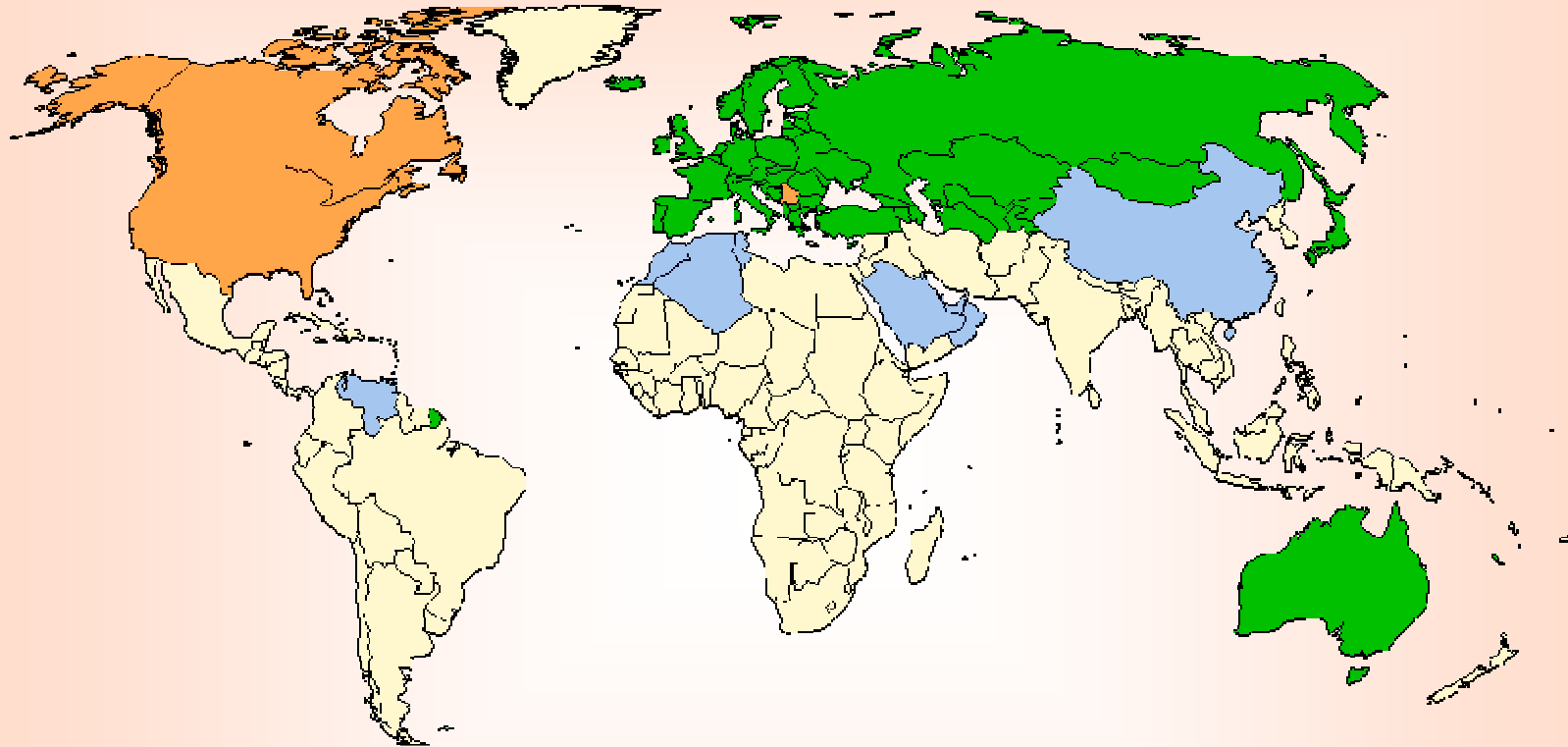
## GAS TRANSIT ROLE FOR MAIN EXPORTERS TO EUROPE IN 1999

Country-exporter	Direct supplies, % of volume of exports	Transit through the territory of: % of volume of exports			
		one country	two countries	three countries	four countries
Netherlands	76,2	13,8	10,0	-	-
Norway	67,7	7,5	21,4	3,4	-
Algeria	44,9	14,8	9,6	24,3	6,4
Russia	5,4	-	8,9	67,6	18,2

# DEVELOPMENT OF ENERGY MARKETS AND MECHANISMS FOR INVESTORS PROTECTION / STIMULATION



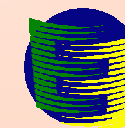
# ENERGY CHARTER TREATY: GEOGRAPHY



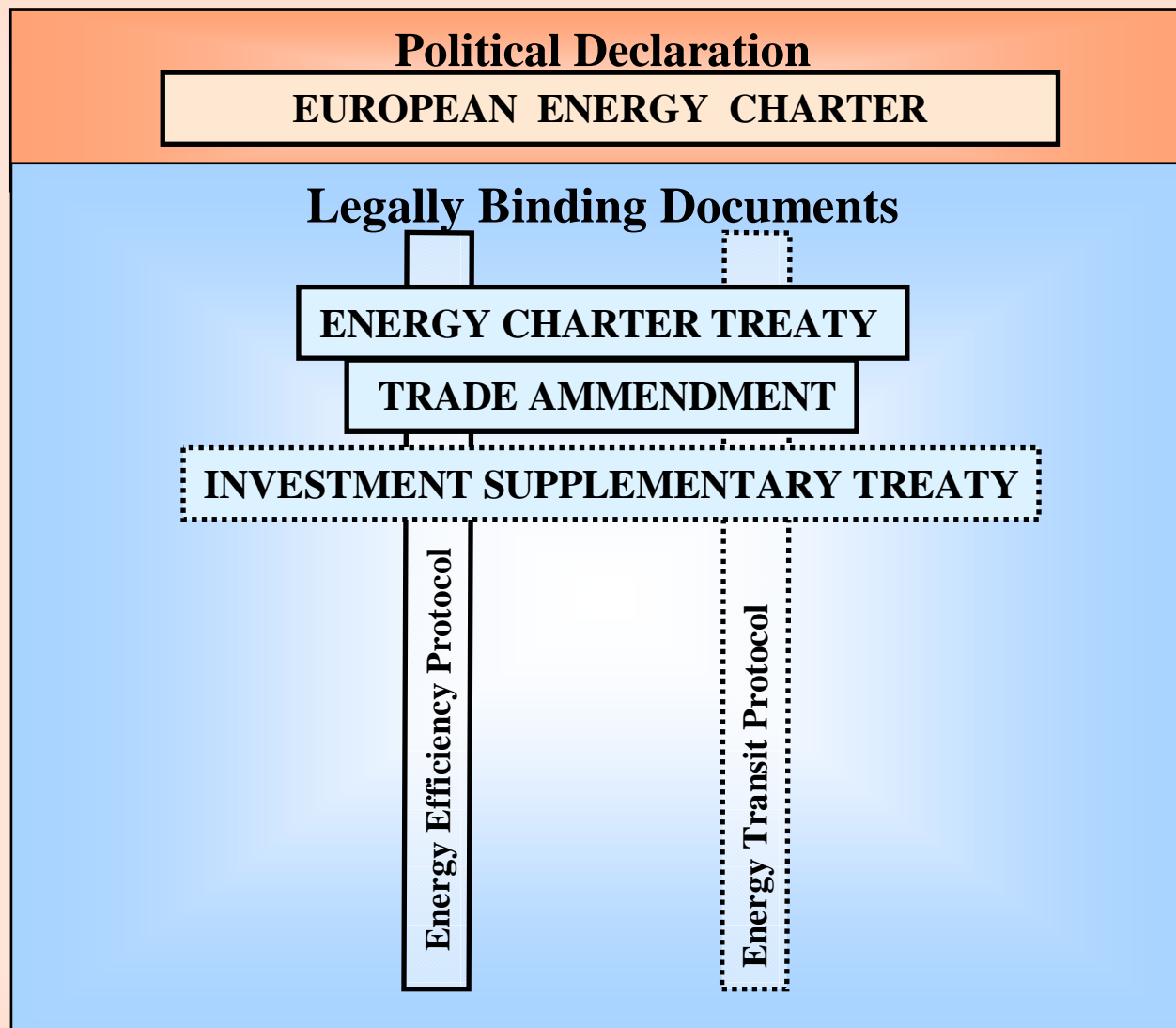
- Energy Charter Treaty Signatory States (1994)
- Observer States that have signed the European Energy Charter (1991)
- Other Observer States

# ENERGY CHARTER HISTORY

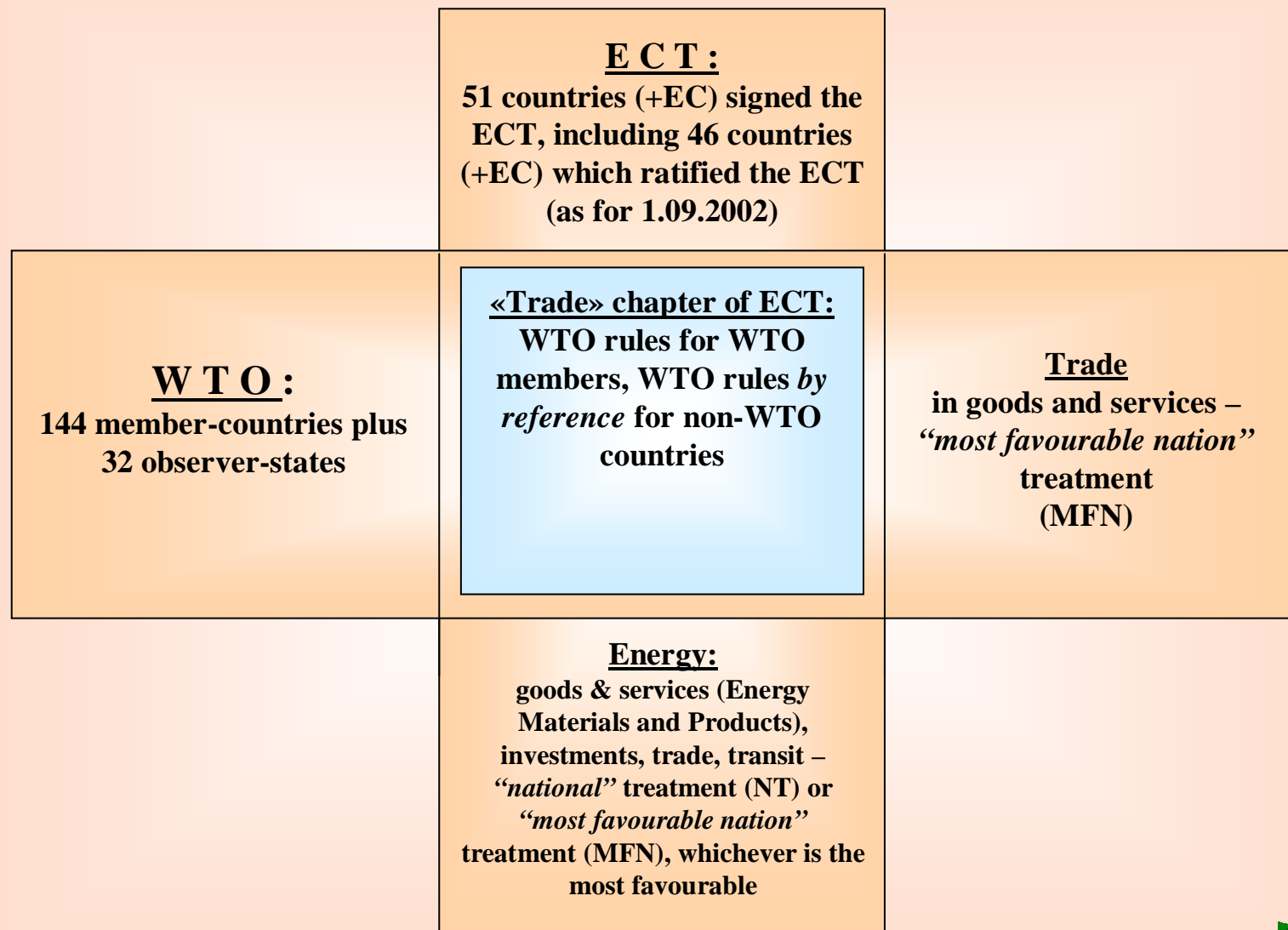
<b>June 25, 1990</b>	<b>Lubbers' initiative presented in Dublin</b>
<b>December 17, 1991</b>	<b>European Energy Charter signed</b>
<b>December 17, 1994</b>	<b>Energy Charter Treaty (ECT) and Protocol on Energy Efficiency and Related Environmental Aspects (PEEREA) signed</b>
<b>June, 1996</b>	<b>Russia started ECT ratification process</b>
<b>April, 1998</b>	<b>ECT came into full legal power</b>
<b>January, 2001</b>	<b>RF State Duma: Russia will ratify ECT, but not yet (depending on Transit Protocol)</b>
<b>As of September 1, 2002</b>	<ul style="list-style-type: none"> <li>• <b>ECT signed by 51 states + European Communities = 52 ECT Contracting Parties</b></li> <li>• <b>ECT ratified by 46 states (excl. 5 countries: Russia, Belarus, Iceland, Australia, Norway ) + EC</b></li> <li>• <b>Russia: provisional application, together with Belarus</b></li> </ul>



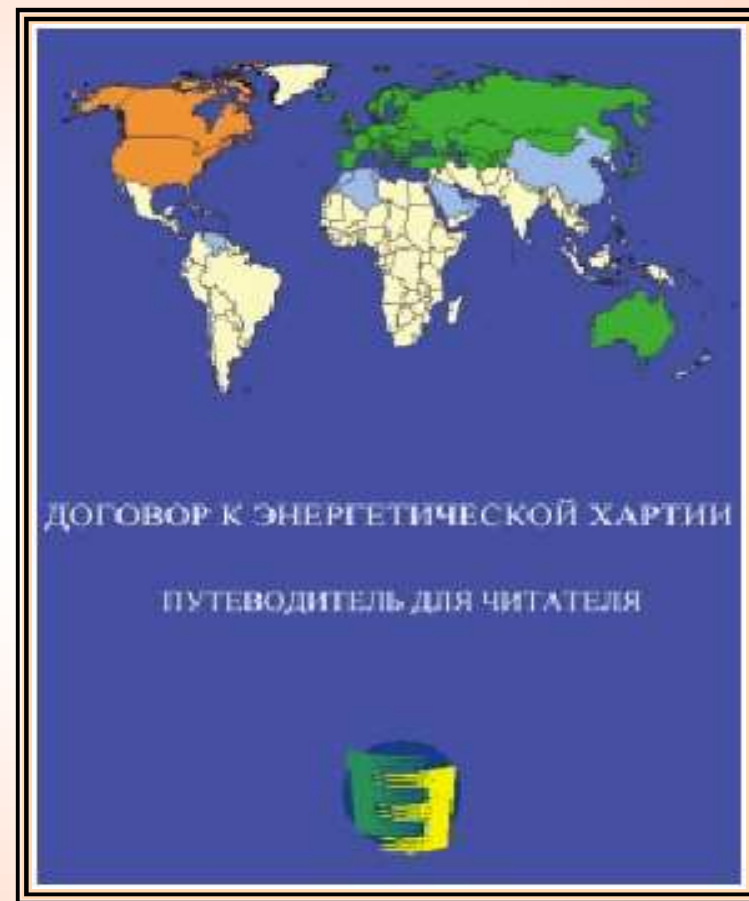
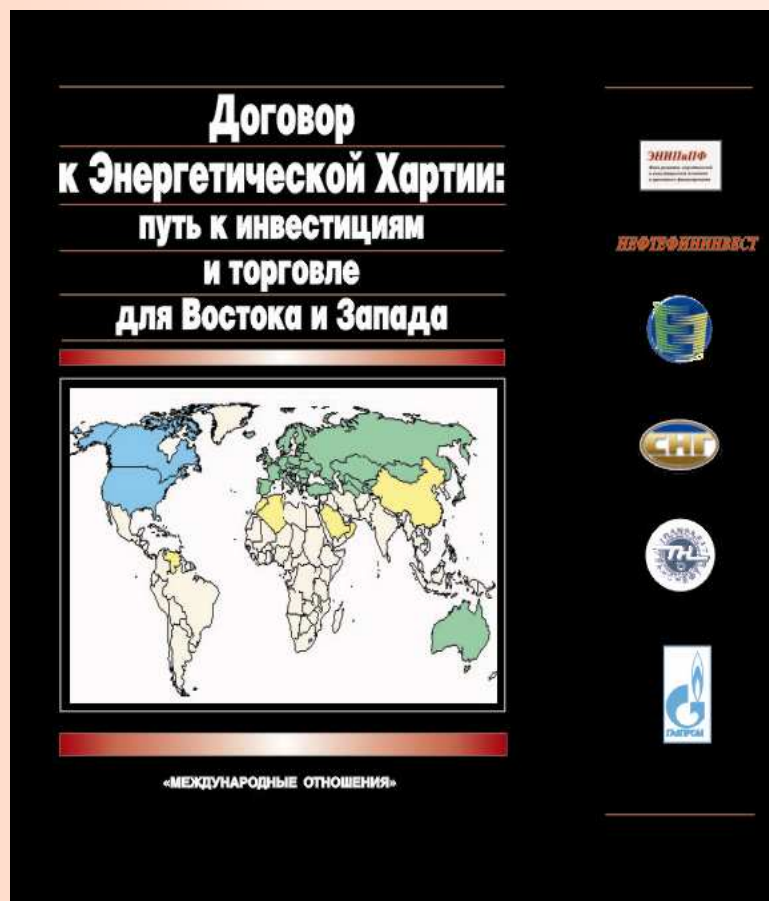
# ENERGY CHARTER AND RELATED DOCUMENTS



# CORRELATION BETWEEN GEOGRAPHICAL SCOPE AND ACTIVITY TARGET OF ECT AND WTO



## MOST RECENT PUBLICATIONS ON ECT:



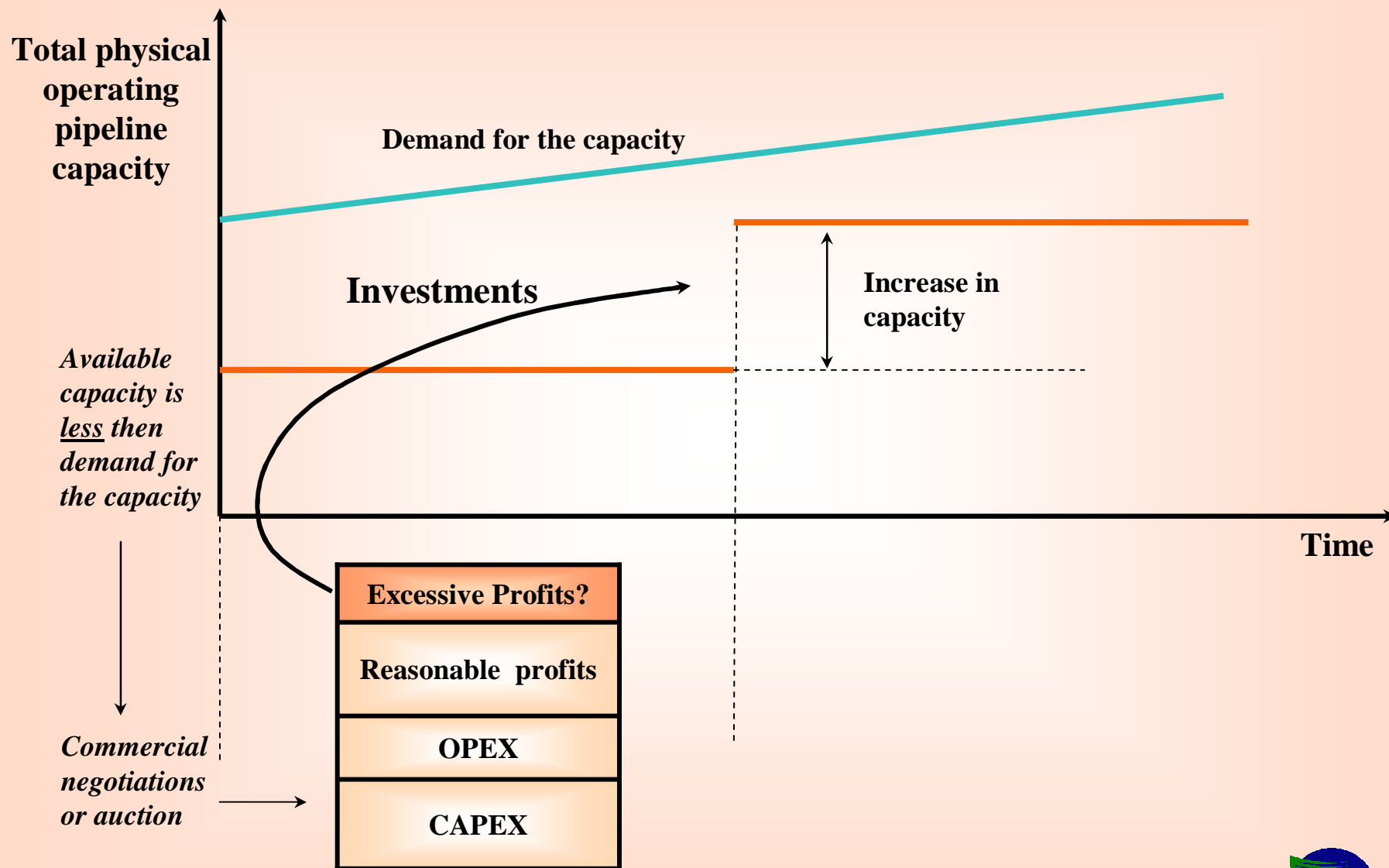
# OUTSTANDING ISSUES RELATED TO TRANSIT OF ENERGY

<p><b>1. Available capacity</b></p> <p><b>2. Environment</b></p> <p><b>3. Geographical scope</b></p> <p><b>4. Conciliation of transit disputes</b></p>	<p><b>Solved in substance</b></p>
<p><b>5. <i>Transit tariffs</i></b></p> <p><b>6. <i>Right of first refusal</i></b></p>	<p><b>Russia – EU trade-off is possible</b></p>
<p><b>7. <i>REIO clause</i></b></p>	<p><b>Major unsolved issue. Subject for bilateral consultations, in particular Russia – EU</b></p>

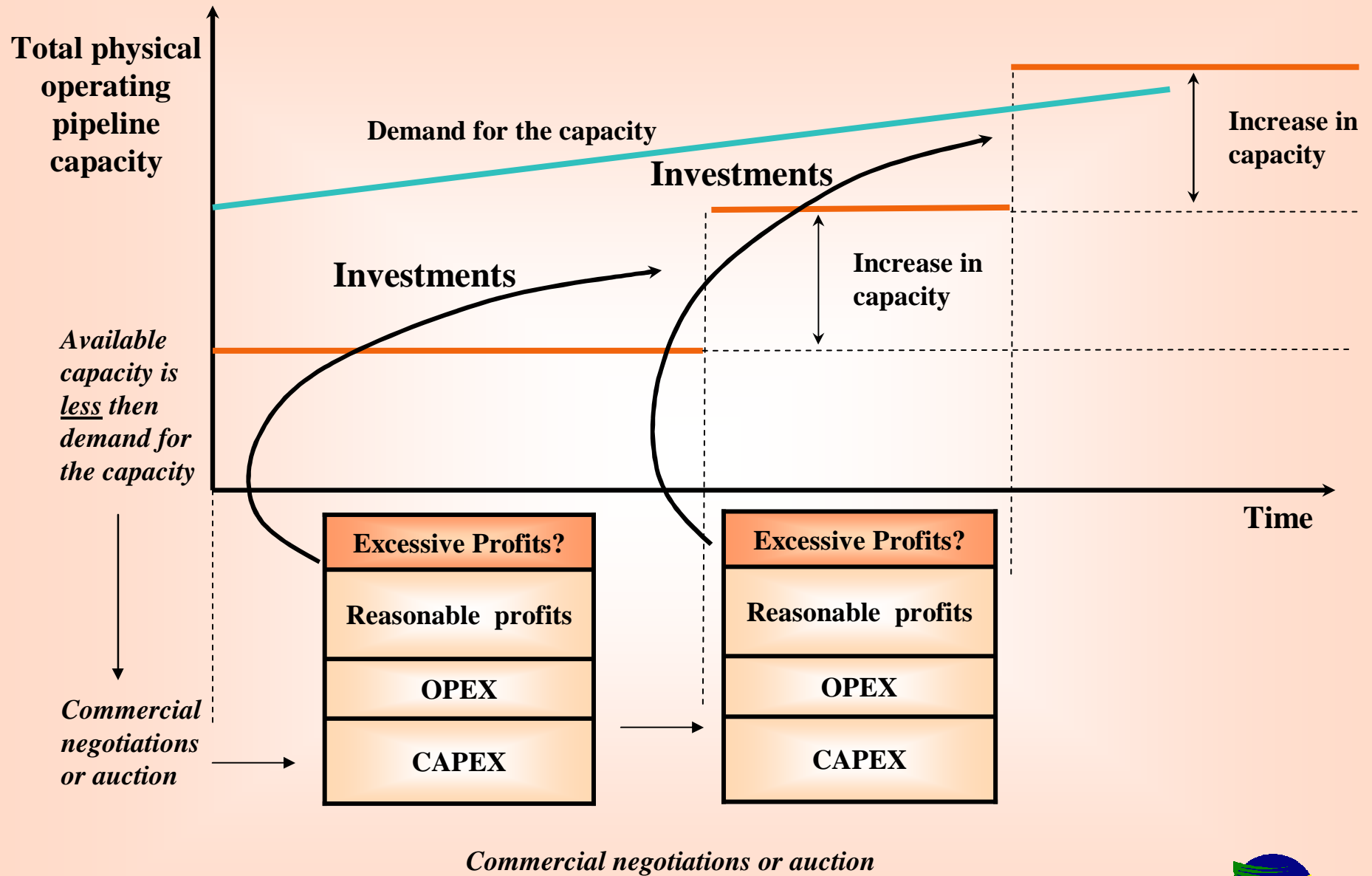
**Negotiations on Transit Protocol: under way since 2000, to be finished (successfully or not) at December 2002 Energy Charter Conference**



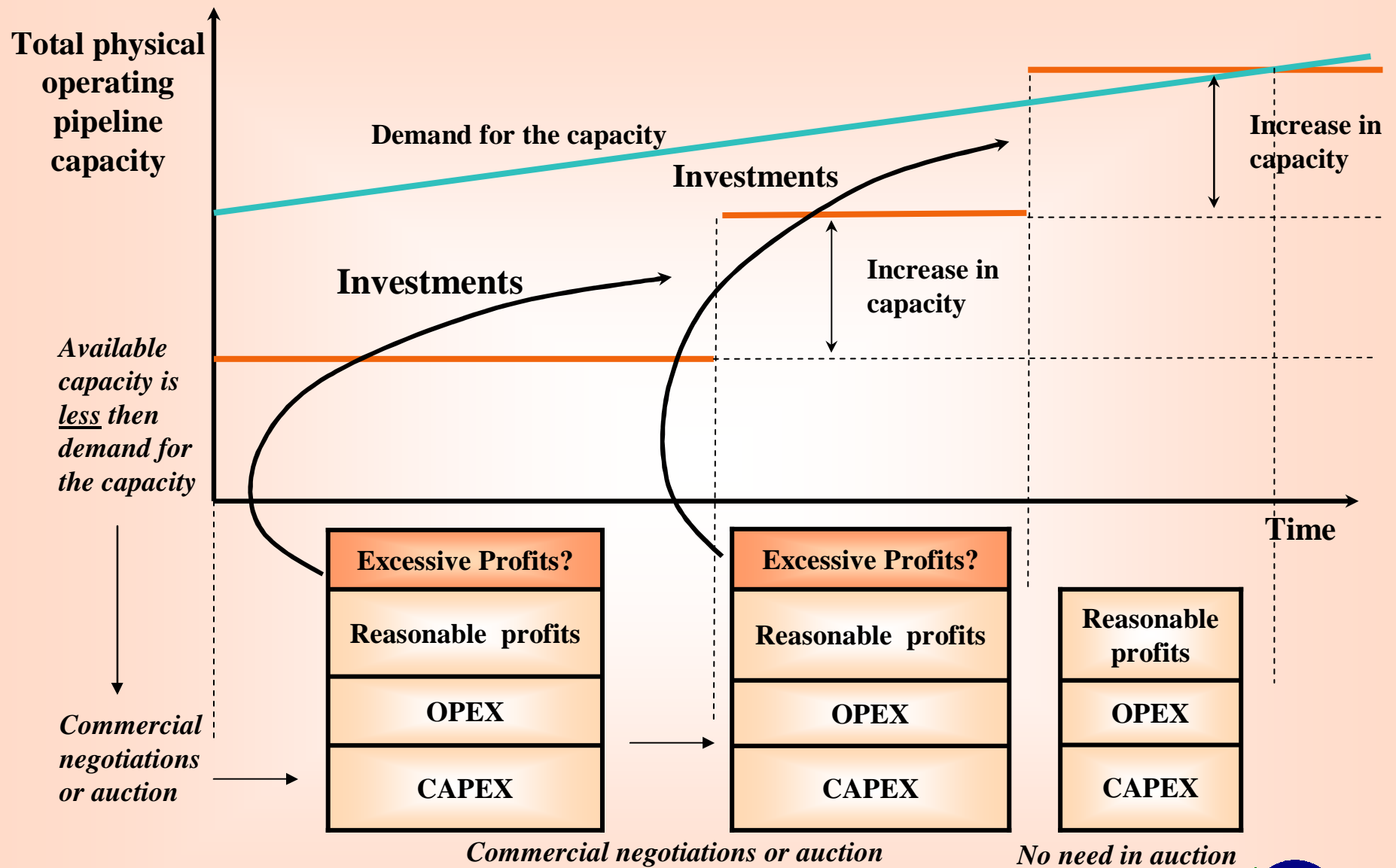
# TRANSIT TARIFFS



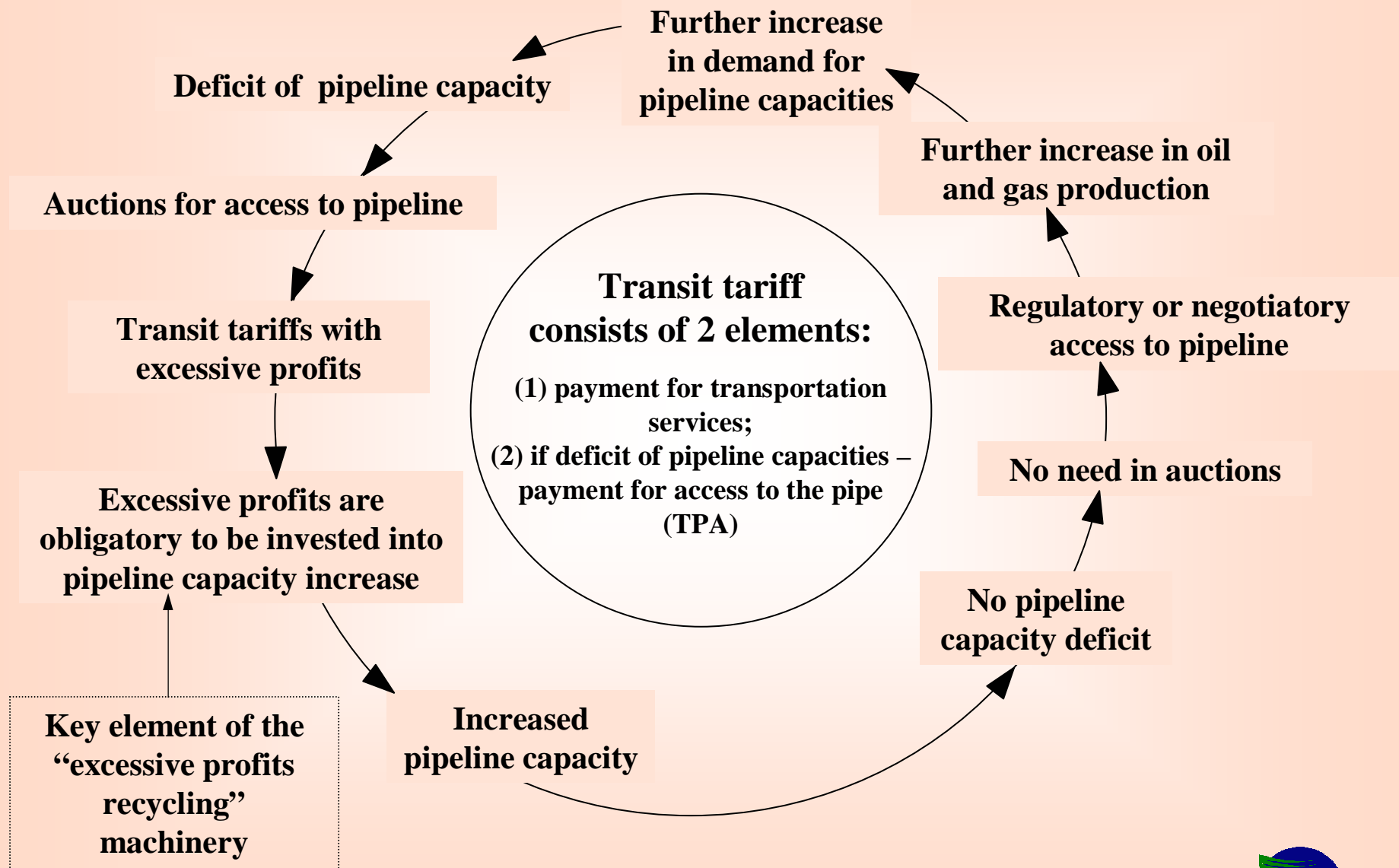
# TRANSIT TARIFFS (continued)



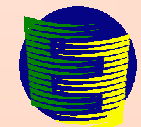
# TRANSIT TARIFFS (continued)



# TRANSIT TARIFFS AND AUCTIONS: “EXCESSIVE PROFITS RECYCLING” MACHINERY

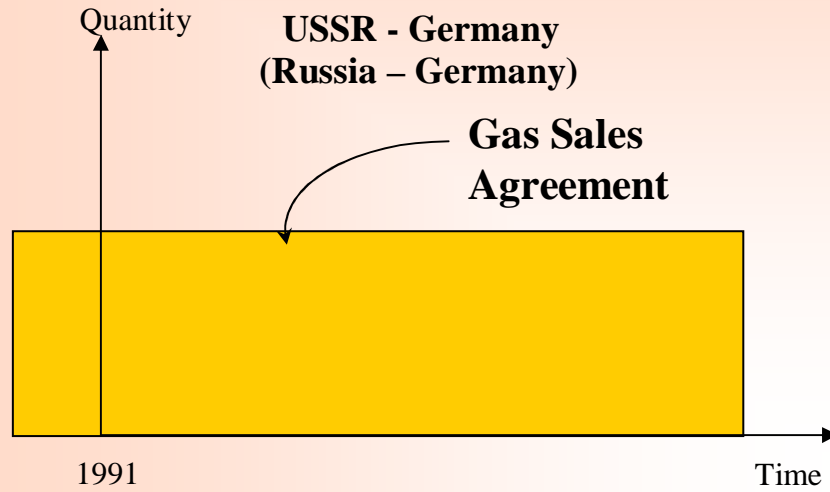


Key element of the  
“excessive profits  
recycling”  
machinery

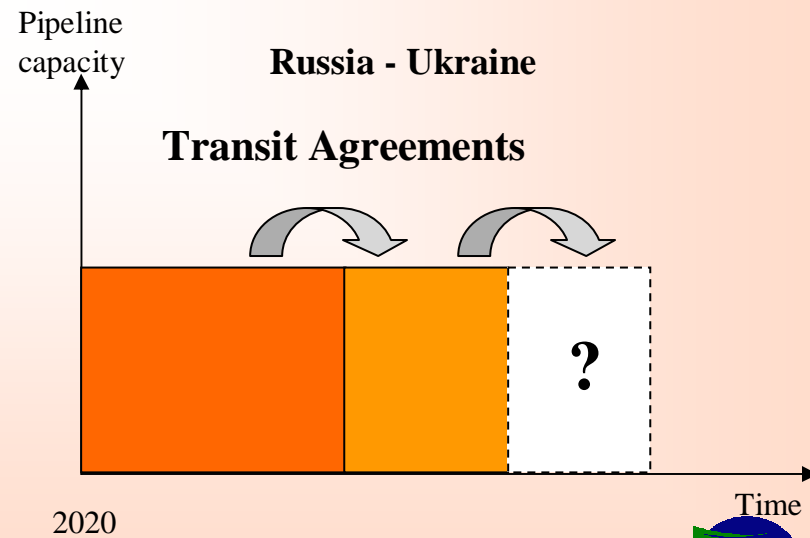
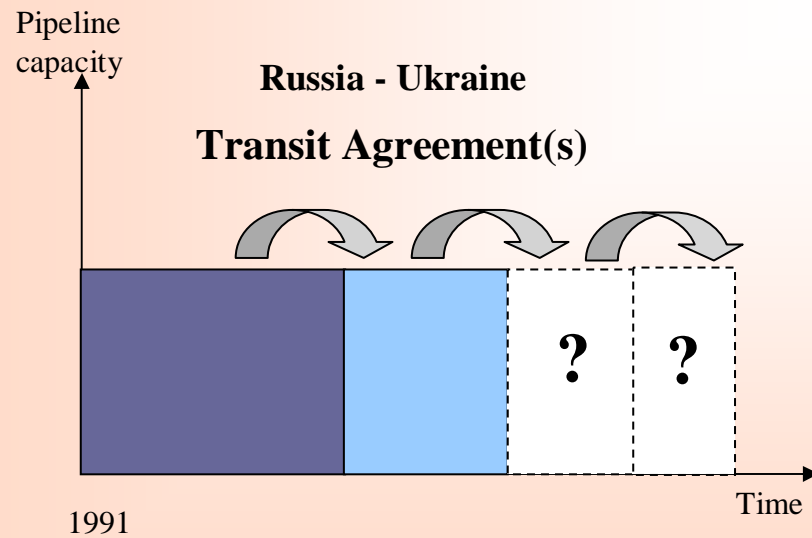
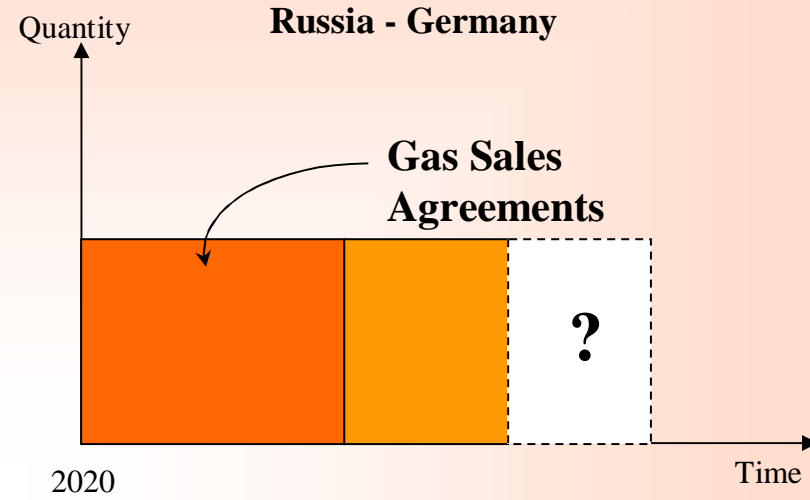


# RIGHT OF FIRST REFUSAL

Currently



In the future



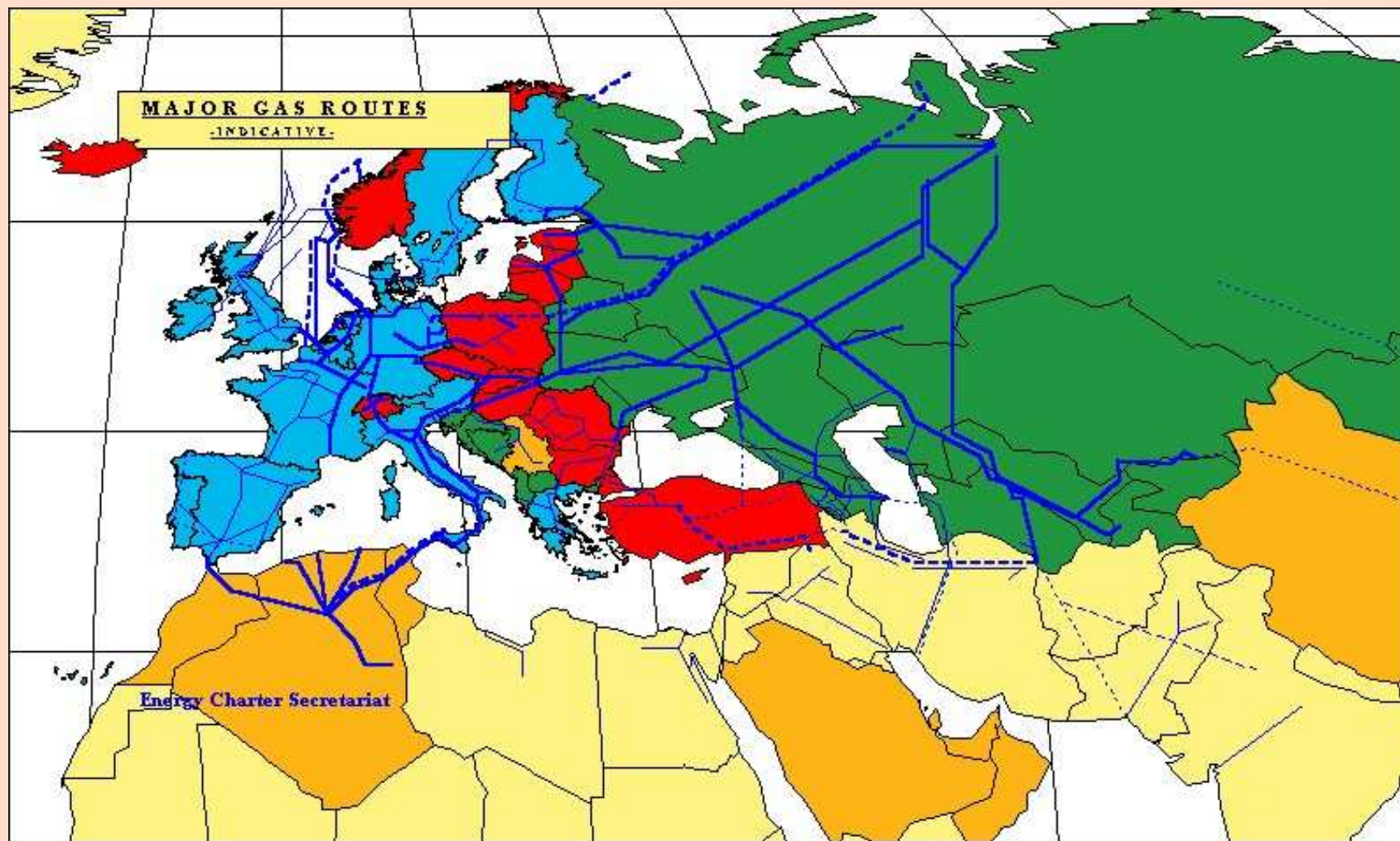
## REIO CLAUSE: GEOGRAPHICAL SCOPE (EC - 15)



## REIO CLAUSE: GEOGRAPHICAL SCOPE (EC - 30)



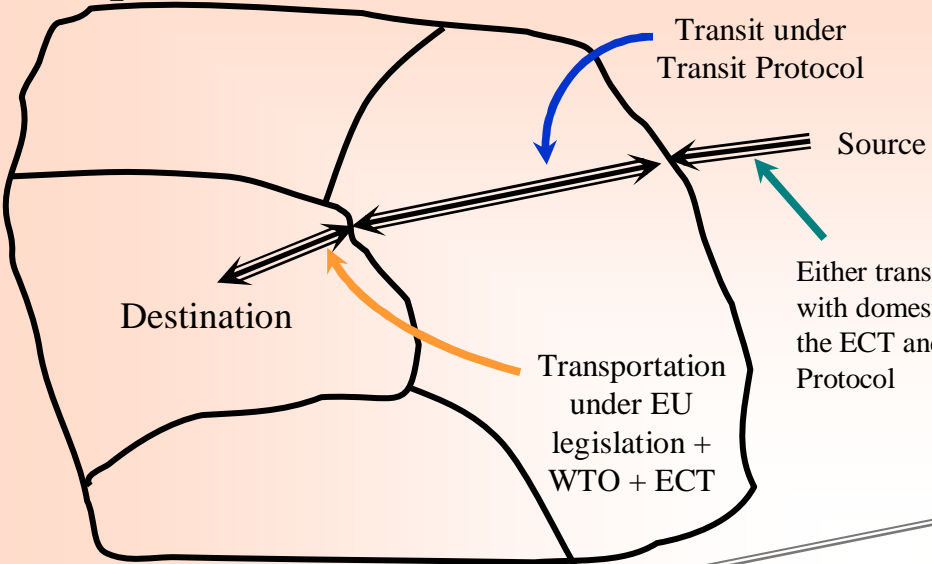
# REIO CLAUSE: GEOGRAPHICAL ASPECTS





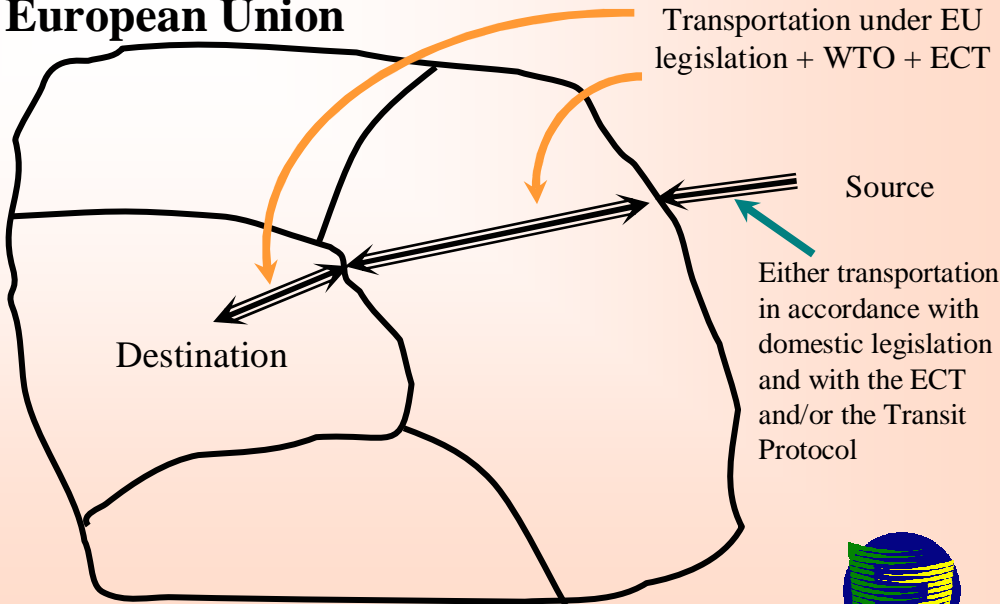
# REIO CLAUSE: LEGAL ASPECTS

## European Union

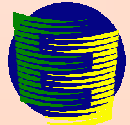


### (a) Before REIO:

## European Union

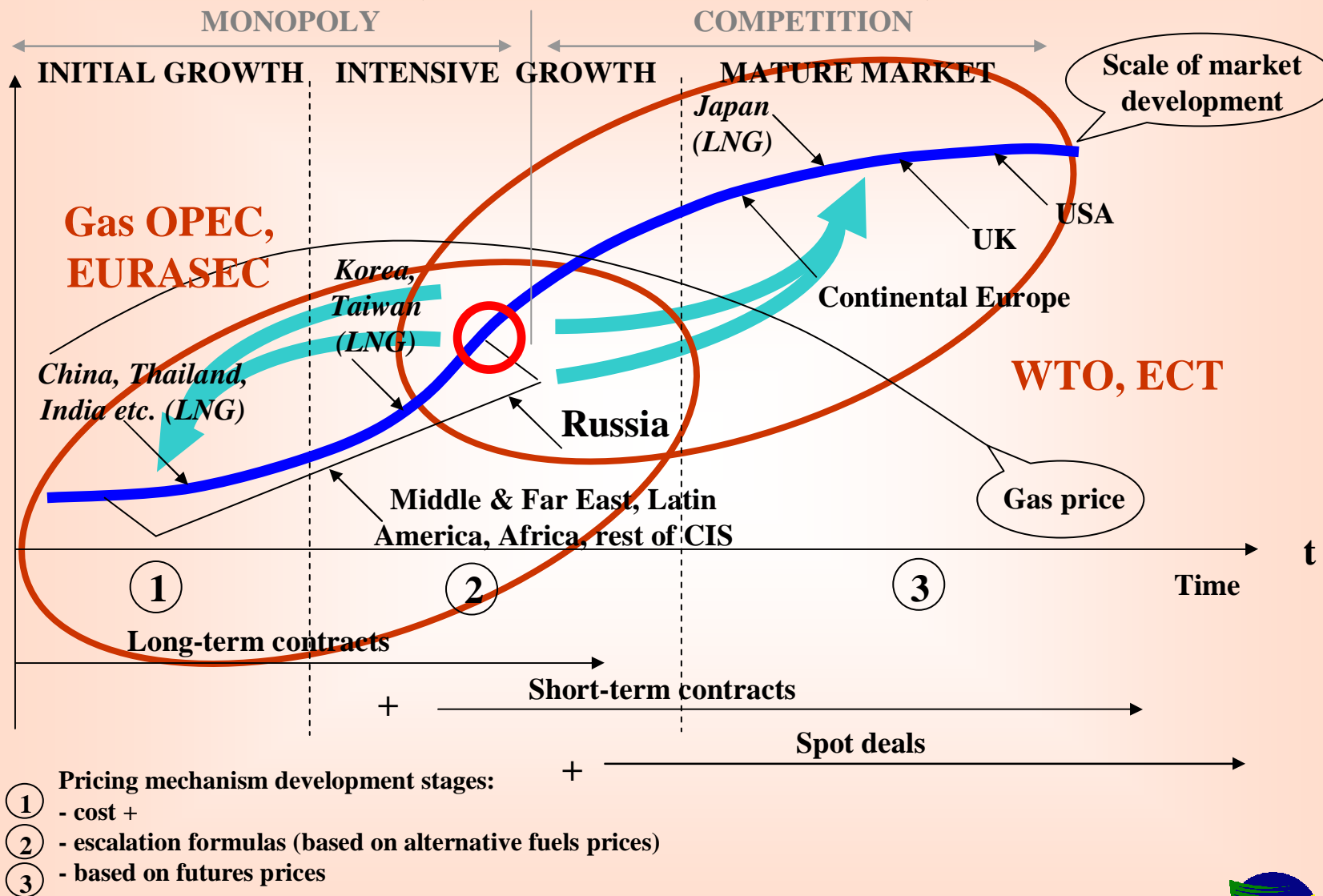


### (b) After REIO:



# EVOLUTION OF GAS MARKETS DEVELOPMENT – 2

## (With whom is Mr Putin?)



# ECT & LEGISLATIVE PRIORITIES OF PRESIDENT PUTIN

