

Unlocking the market potential for gas supply cooperation in the CEE region

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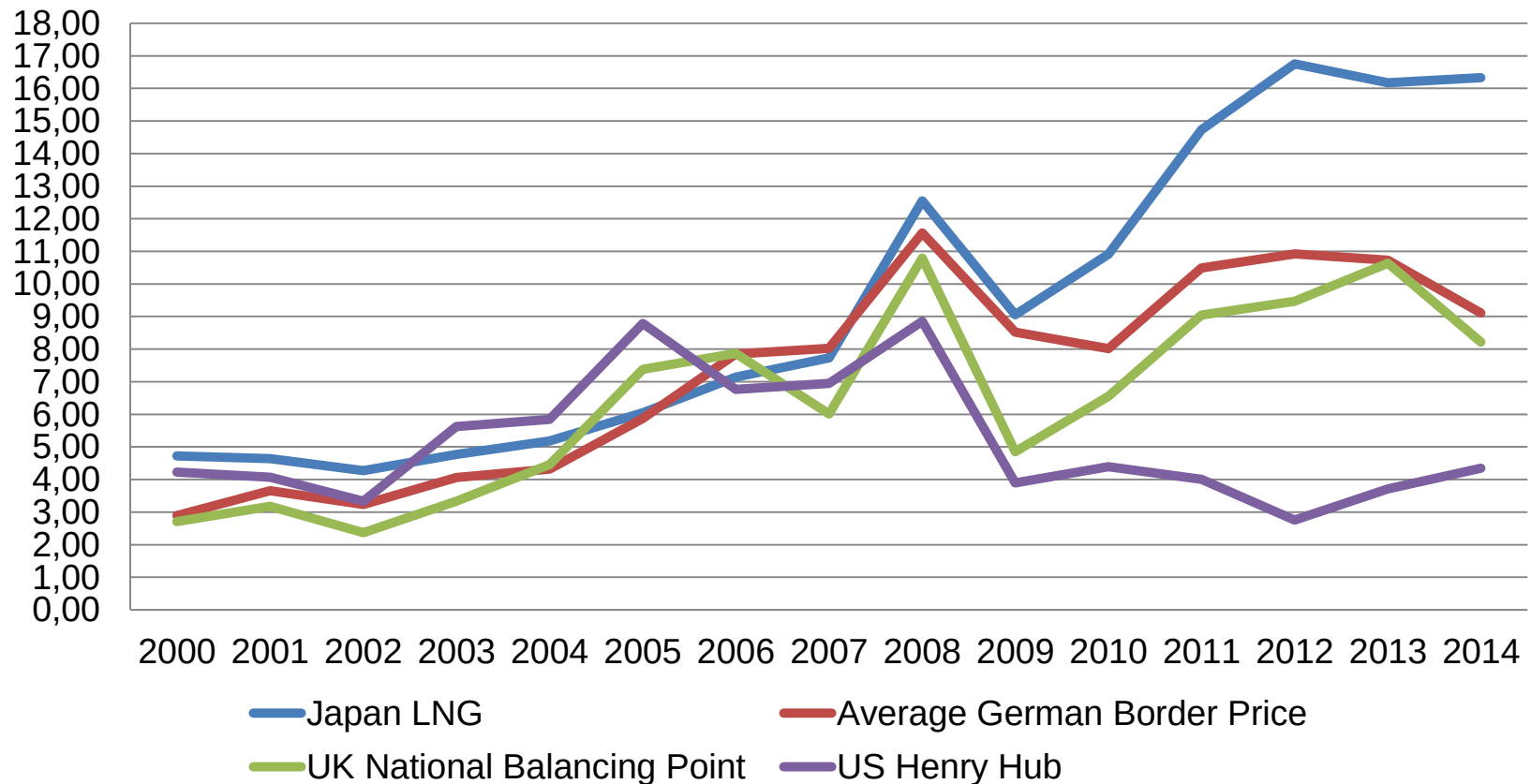
- Change vs. Continuity in the European Gas Markets
- The North-South Gas Corridor: a Panacea?
- Governance Issues and Regional Cooperation

1. Change vs. Continuity in the European Gas Market

Changing Western European Gas Markets

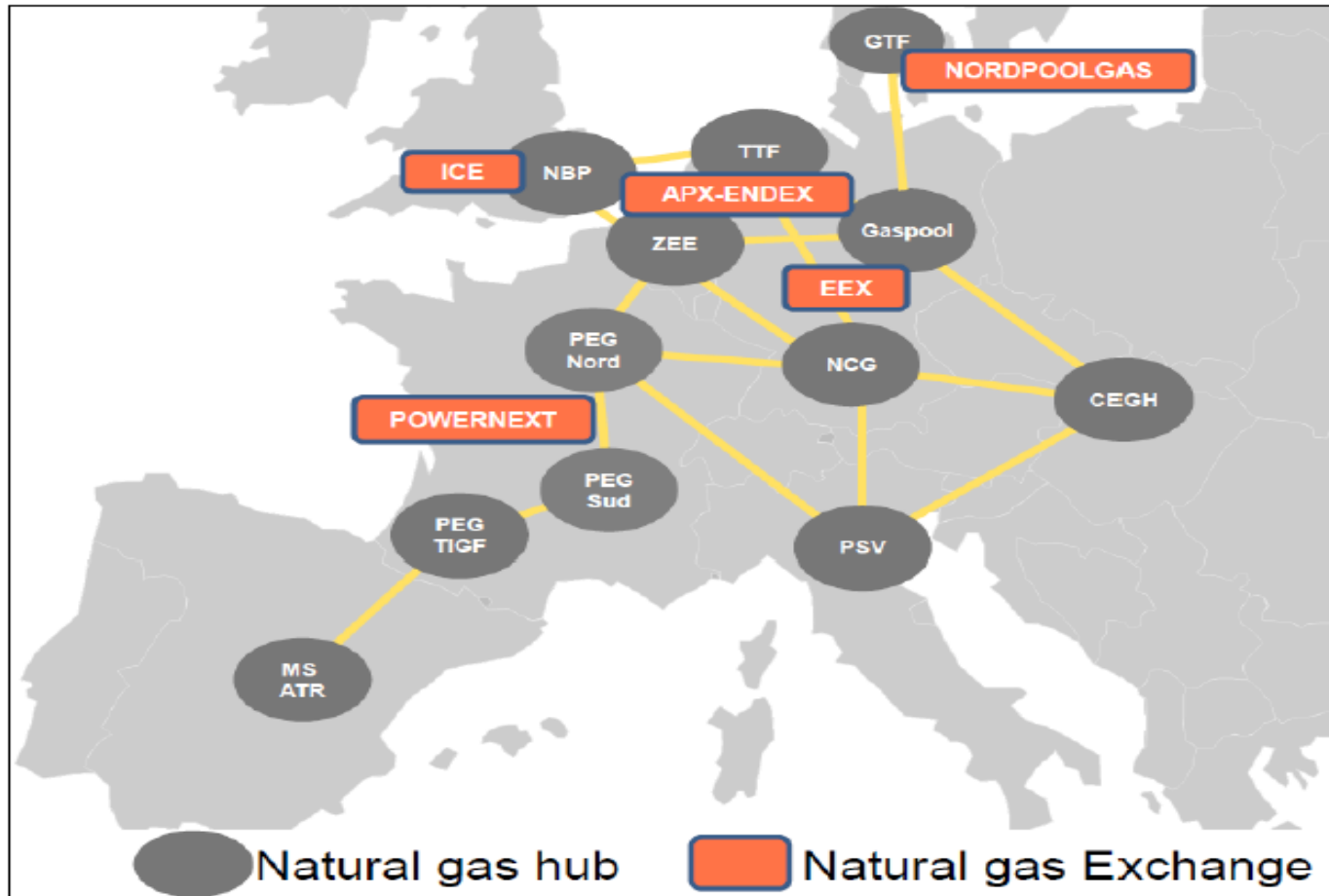
- Commoditization of gas on spot markets
- Globalization of the gas supply via LNG
- Falling gas demand in Europe
- Supply glut after 2015

Fig.1 European Hub Price Conversion (\$/MMBtu)



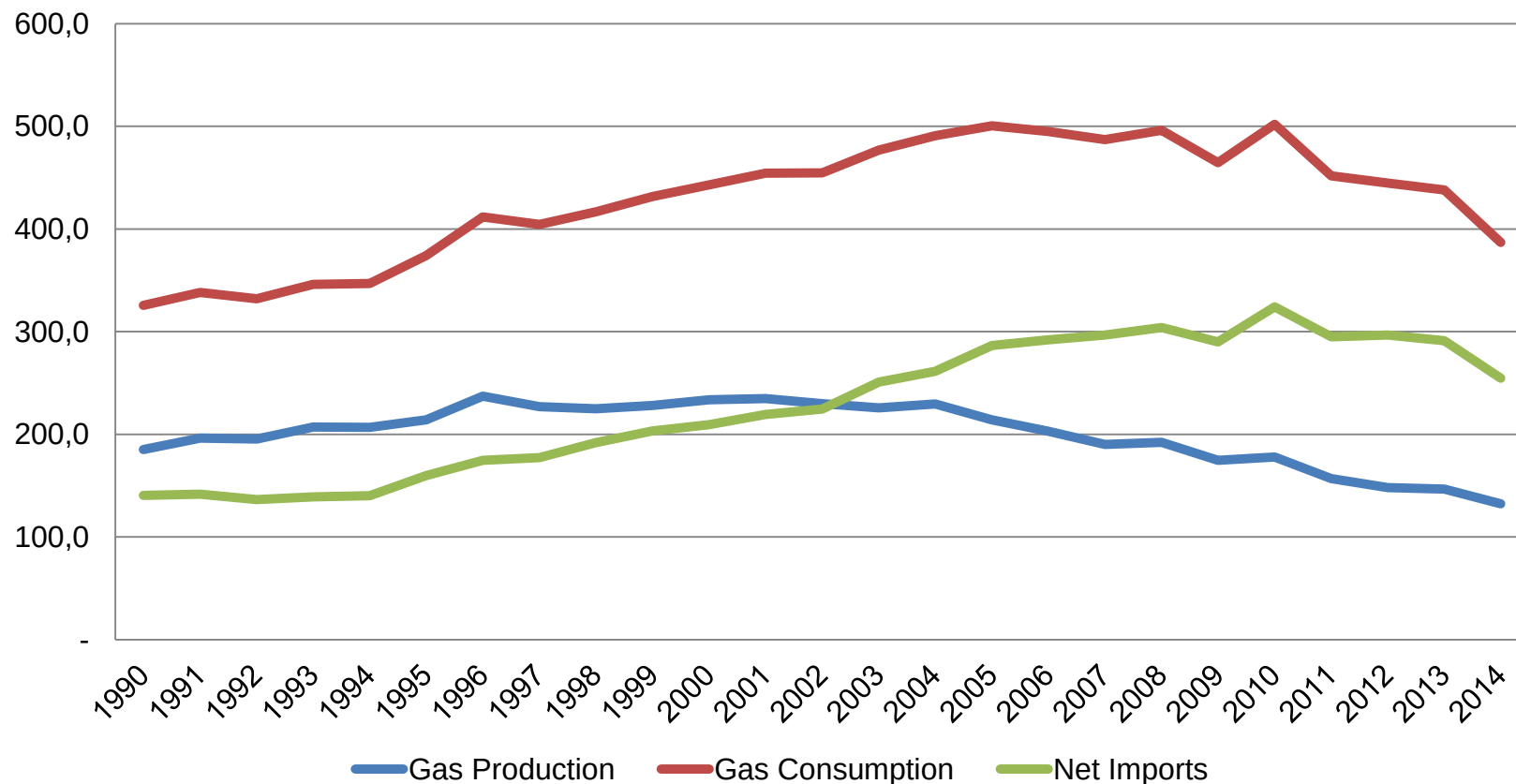
Source: BP

The Spread of Gas Hubs in Western Europe



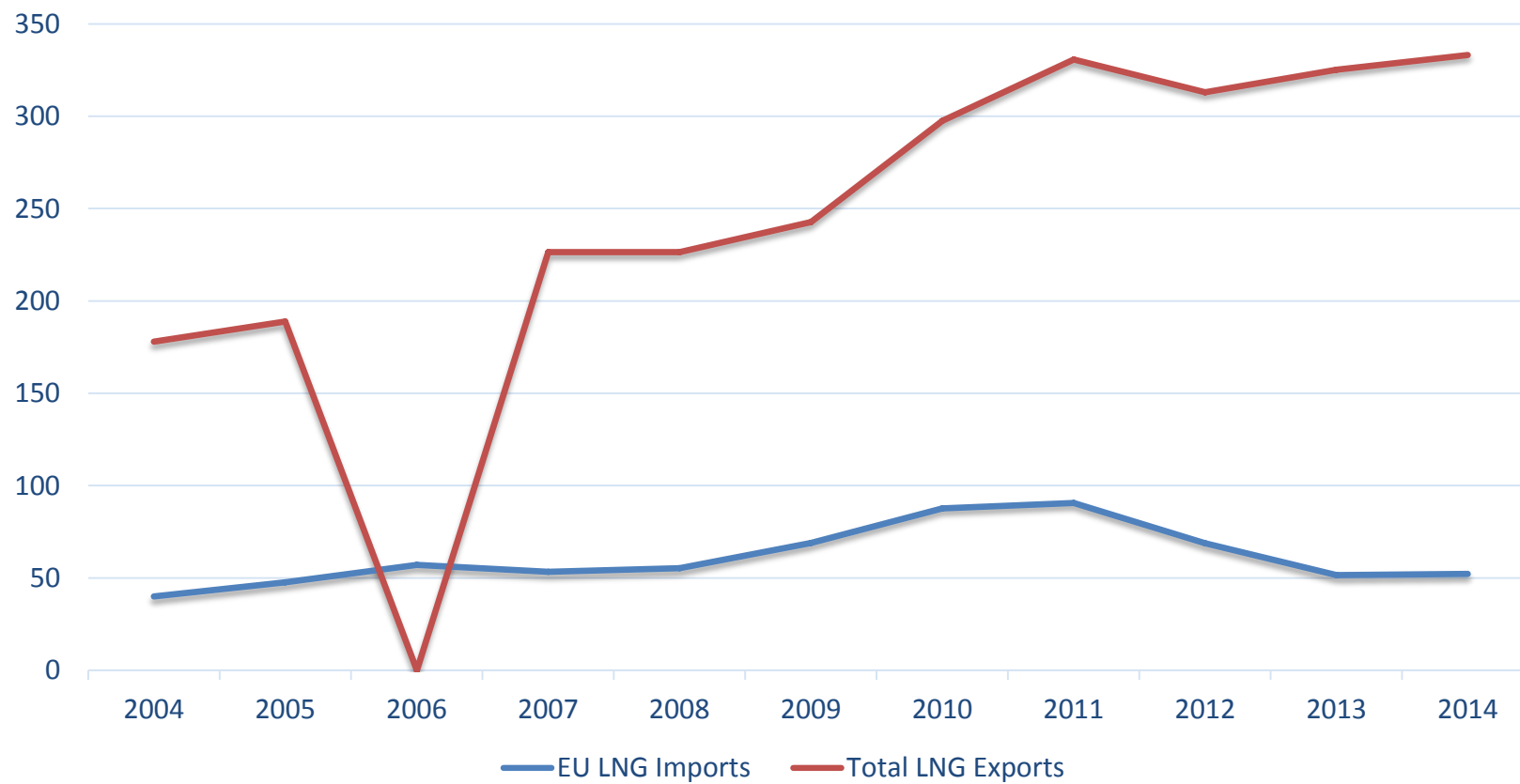
Source: OIES

Fig. 2 Falling EU Gas Demand and Flattening Imports



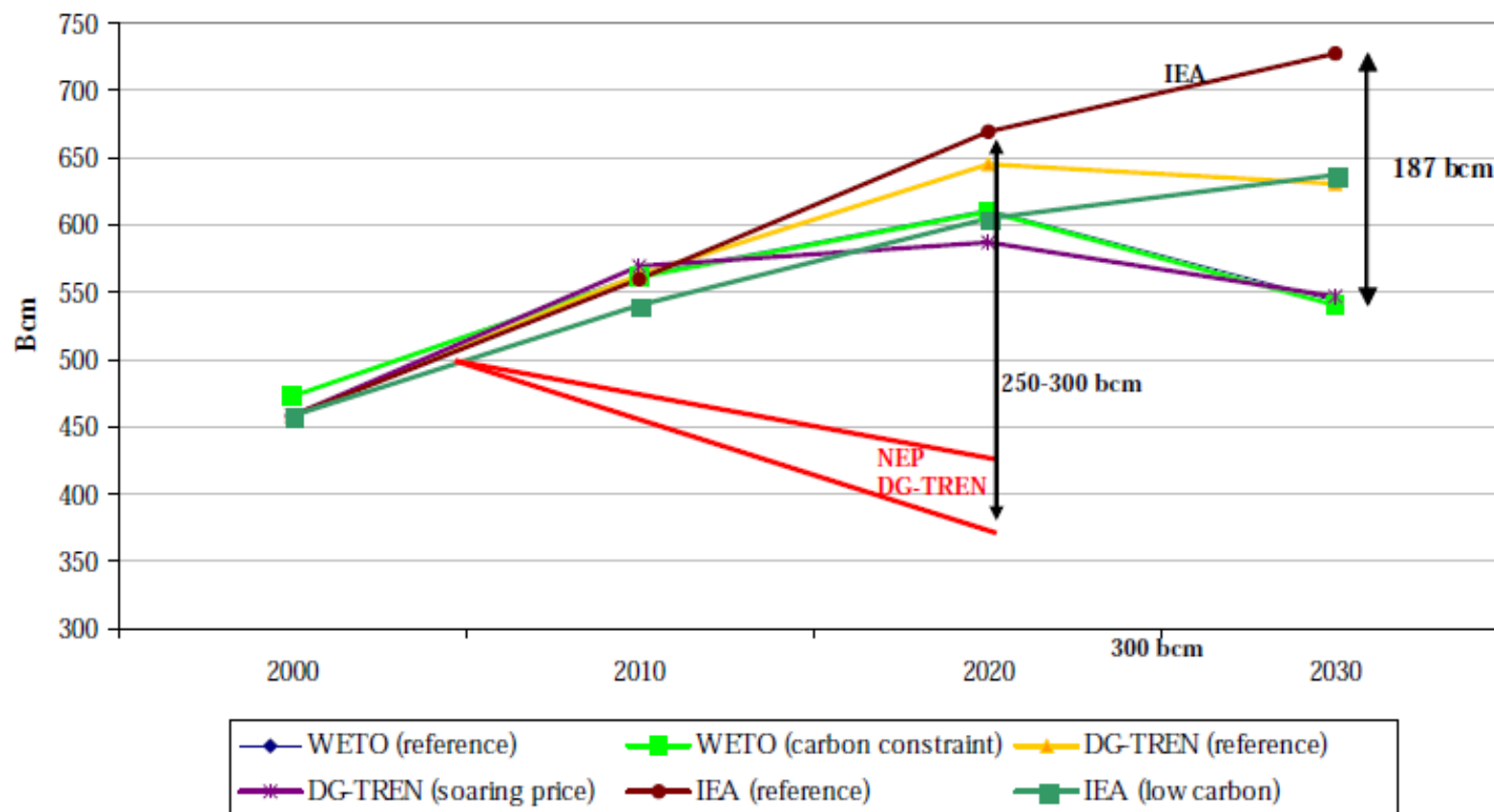
Source: BP

Fig.3 LNG Glut in Europe (bcm)



Source: BP

Fig.4 Unpredictable EU Gas Demand



Central and Eastern Europe Stuck in the Past

- Dependence on largely one source of gas - Russia
- Lack of regional integration and limited interconnectedness
- Protracted internal gas market creation via West-East flows
- Delayed wholesale gas market liberalisation

Table 1 Still paying dearly for gas in the CEE

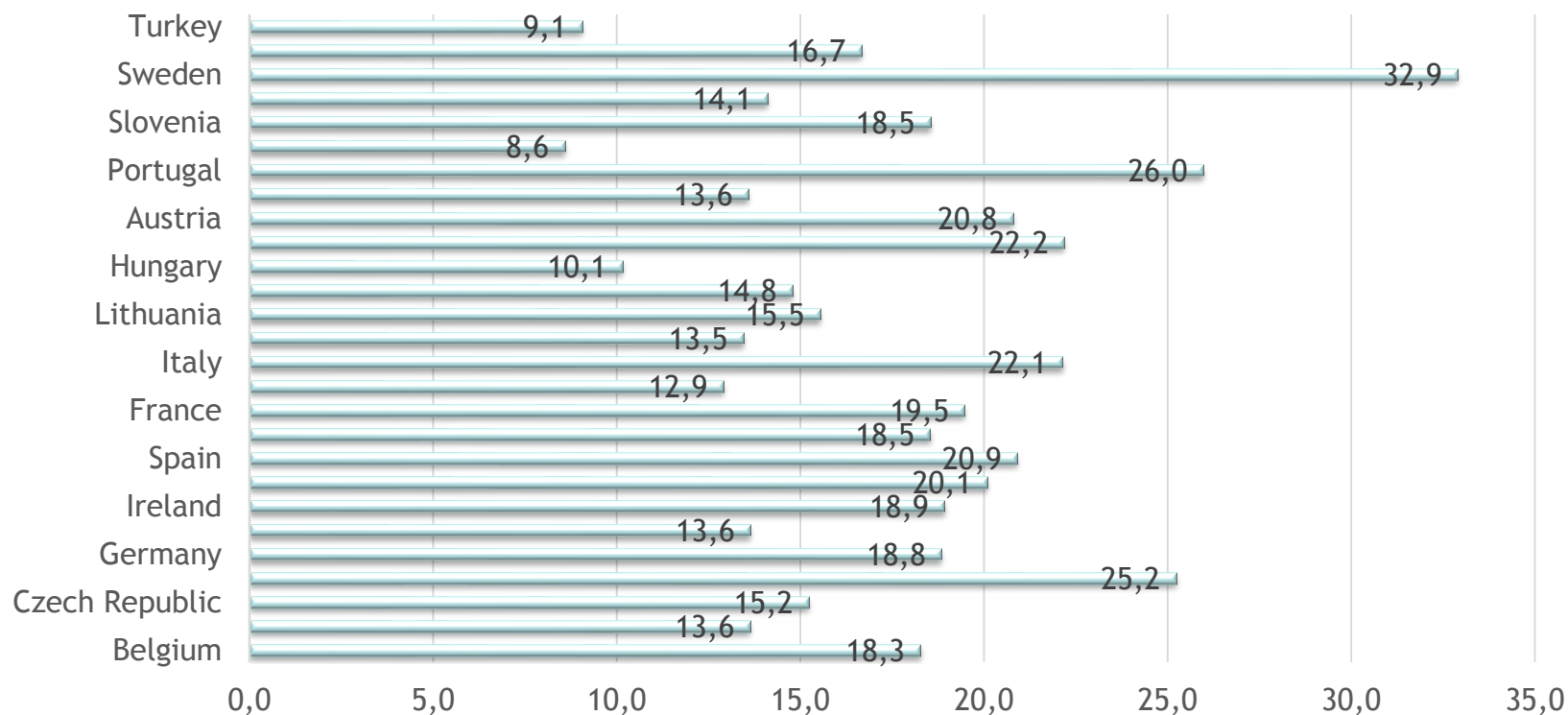
Country	Gas Import Dependency	Share of Russia in gas imports	Share of Russia in gas consumption	Total Gas Consumption (bcm)	Average Gas Price (\$ per 1000 cubic meters) *
Slovenia	100%	60.20%	60.20%	0.87	485
Greece	100%	55.60%	55.60%	3.6	476
Bulgaria	90.00%	100%	90%	2.6	417
Hungary	78.20%	100%	78.20%	8.6	435
Romania	24.30%	100%	24.30%	12.5	399
Poland	72%	81.30%	58.60%	16.7	403
Slovakia	98.40%	83.50%	82.20%	5.4	429
Czech Republic	98.00%	58.60%	57.50%	8.4	503*
Serbia	82.40%	100%	82.40%	2.91	457
Average	83%	82%	65%	6.84	437.6

Source: European Geopolitical Forum, National source

Data for 2012/2013

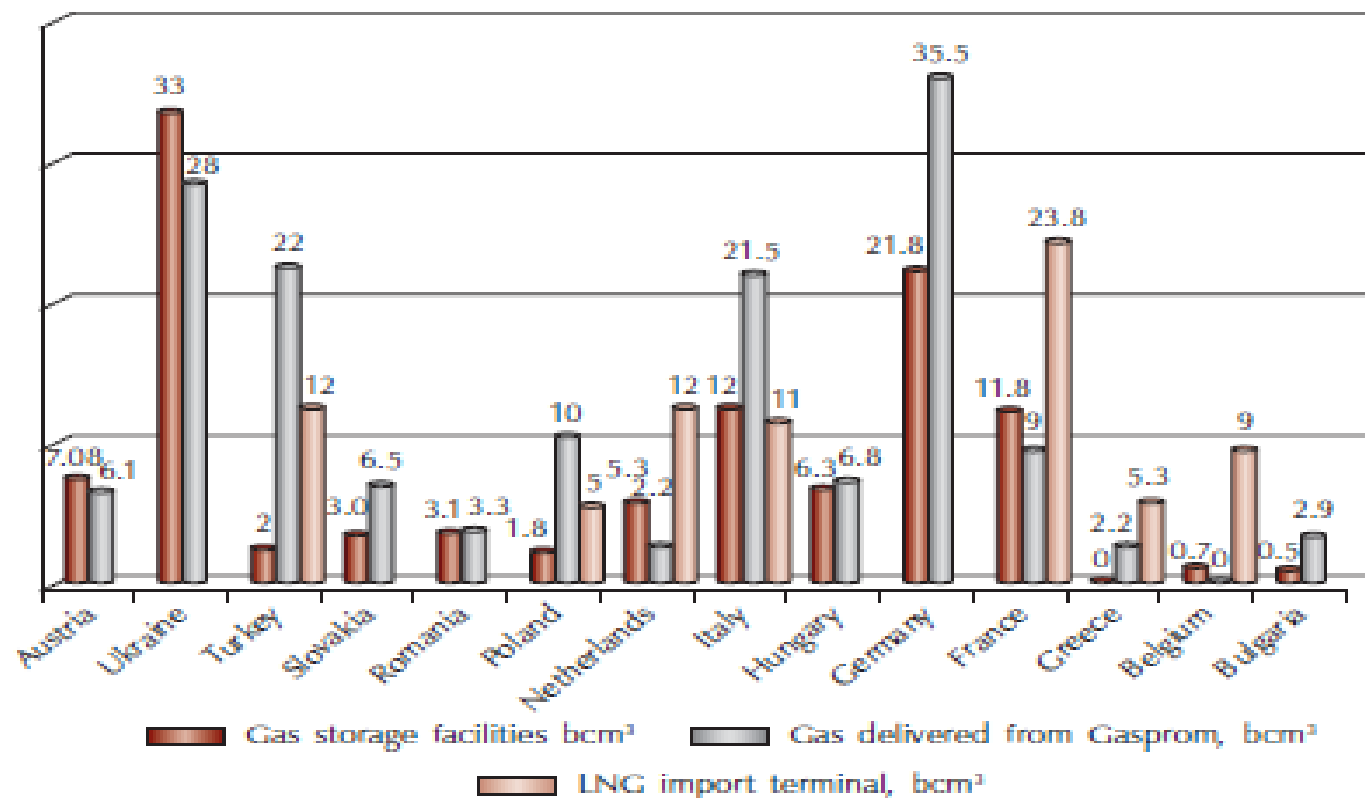
Fig.5 Average Household Gas Tariffs in the EU (EUR/Gigajoule)

Average Gas Tariffs



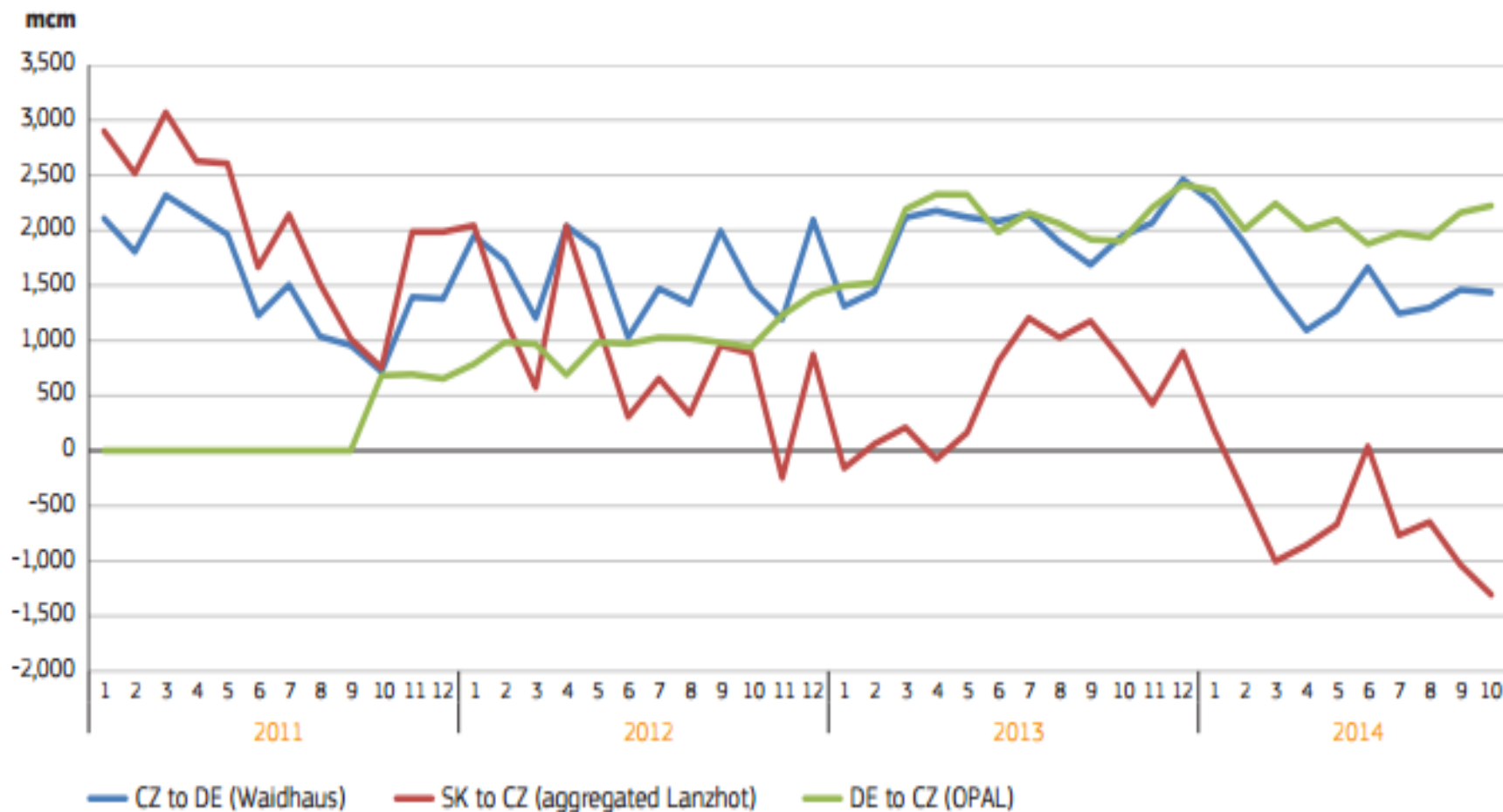
Source: Eurostat

Fig.6 Gas Supply Security - SEE as the big outlier



Source: CSD

Fig.7 Increase in West-East gas flows



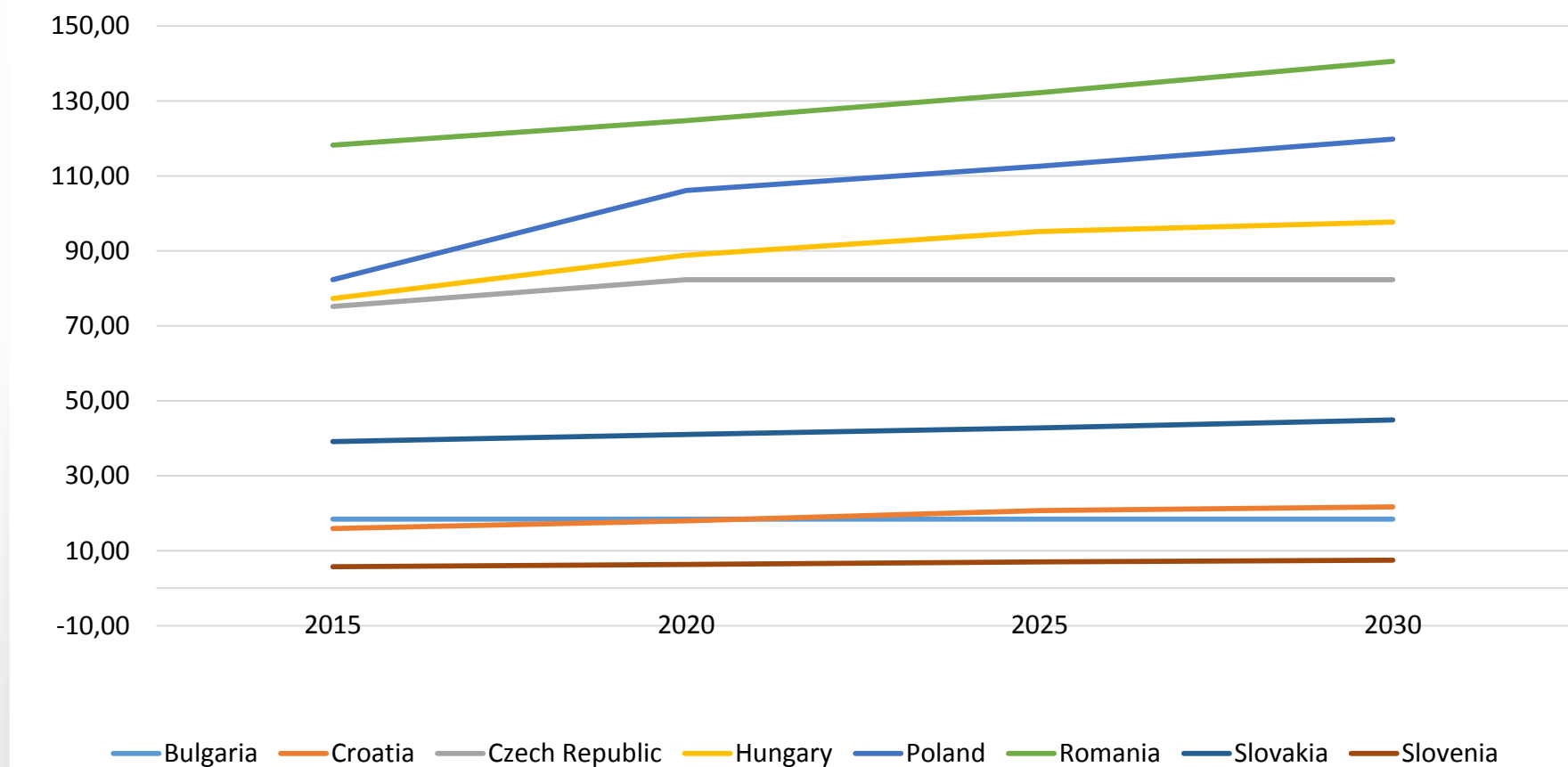
Source: European Commission

2. North-South Gas Corridor: A Panacea?

Table 2. Selected important gas interconnectors in SEE and CEE

Project	Route	Capacity	Tentative budget	Status (planned / in progress)	deadline (to be completed by)
North-South Corridor Backbone Pipeline	1,340-km from Lwówek in Poland to Sisak in Croatia	15 bcm/y	€3.5 billion	Some sections are in place or in progress	2018
Omisalj-Sisak pipeline	73km from Omisalj to Sisak	6 bcm/y	€150 million	planned	2018
Krk-Omisalj LNG Facility	Croatia	6 bcm/y	€500 million	planned	2018
Ionian-Adriatic Pipeline	Western Balkans	5 bcm/y	€580m	planned	2020
Interconnector Greece-Bulgaria	182km between Komotini in Greece to Stara Zagora in Bulgaria	3-5 bcm/y	€220 million	planned	2015
Polish-Lithuania gas interconnector	532km	2,6-4,4 bcm/y	€600 million	planned	2018
West-East corridor	interconnectors Germany-Poland and Poland-Ukraine		€440-460 million	planned	2018
Western Balkans connections	Serbia-Bulgaria	1.8 bcm/y	€48 million	planned	2016
	Serbia-Former yugoslav Republic of Macedonia	N/A	N/A	N/A	TBD
	Croatia-Serbia	6 bcm/y	N/A	N/A	TBD
	Croatia-Bosnia	1-1.5 bcm/y	N/A	N/A	2015
Gas Interconnector Greece - Bulgaria (IGB)	Komotini in Greece to Stara Zagora in Bulgaria	3 up to 5 bcm/y	€220 m	planned	2019
Interconnector Bulgaria-Romania	Ruse in Bulgaria to Giurgi in Romania	0,5-1,5 bcm/y	€ 23,8 m	construction is ongoing	2016
Interconnector Turkey-Bulgaria	140 km	3 bcm/y	TBD	planned	TBD
TOTAL: over €6.4 billion (PCI funding until 2020 = €5.85)					

Fig.8 Peak Gas Demand in Selected CEE countries (mcm/d)



Instead of costly pipelines: an easier way

- Rerouting gas deliveries within the internal market and changing the direction of traditionally one-way transport routes
- Physical bi-directional gas flows on existing cross-border pipelines to increase entry capacity and potentially accessing new sources.
- As of 2014, 40% of all 53 cross-border interconnection points in the EU are bidirectional, up from a quarter in 2009.

The role of the EU Energy Union

- Acceleration of the building and financing of PCIs
- Directing energy market liberalization and market integration
- Strengthening of regional cooperation mechanisms
- Creation of common gas purchasing mechanism
- Reduction of wasteful energy demand

3. Governance deficits and state capture in the regional energy sector

Governance Deficits in the CEE

- Regulatory obstacles for energy market liberalization
- Inefficient corporate governance of energy SOEs
- Participation of economically unviable large energy infrastructure projects - the case of South Stream
- Capture of the state energy policy by private local or foreign state interests

Table 3 Cost Inflation in Gazprom-controlled pipelines

Project	Country/Project	Diameter	Cost (mn euros/km)
South Stream - Bulgaria	Russia, South Stream	1420	7,4
OPAL	Germany, Nord Stream	1420	2,1
NEL	Germany, Nord Stream	1420	2,3
Russian Southern Corridor	Russia, Domestic	1420	4,5
Gazelle	Czech Republic, Nord Stream	1420	2,4

Source: CSD, Gazprom

Gazprom's monopoly - tools for influence

- *Hindering cross-border gas sales*
- Charging unfair prices through pricing formulae that largely favoured Gazprom over its customers
- Making gas supplies conditional on obtaining unrelated commitments from wholesalers concerning gas transport infrastructure.
- Pressuring governments to halt gas liberalization reforms

Thank You!

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