

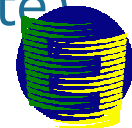
**DIVERSIFYING EUROPE'S  
SUPPLY ROUTES  
(Chairman's Opening Remarks  
to Session 3)**

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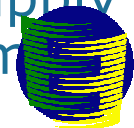
# “Diversification” from consumer & producer view differs

- **Consumer’s view:**
  - Diversification of sources
  - Diversification of supply routes, both from the same one & from different sources
- **Producer’s view:**
  - Diversification of markets (geography + stage of market development: portfolio of classical / traditional & new markets)
  - Diversification of supply routes, both to the same one & to different markets
- **Diversification:** different meaning (substance) of the term for producers & consumers => demand for common assessment (common/shared interests) => e.g. Diversification of pegging formulas (will discuss at Round Table 2)
- **Key driver for diversification** = demand for increased energy security => to distinguish Security of Supply for consumers (**SoS**) vs. Security of Demand for producers (**SoD**);
- **NB: Transit states** are the recipients of diversification options (can not decide, but can influence; competition for the route)



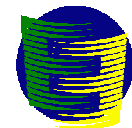
# Diversification: asymmetry between SoS & SoD

- **SoS:** can be guaranteed by Government of exporting state (subject to geological & technical performance) =>
  - long-term decision of (few) resource-owning states on their depletion policy (state sovereignty on natural resources) =>
  - long-term investment decisions of the companies/state;
  - after (politically motivated/influenced) long-term economic decisions are made, it is hard (or even impossible) for producers to change them, *especially in gas*, without huge economic losses for the companies & states involved
- **SoD:** is always subject to consumers' decision / motivation (subject to short-termism?) =>
  - economically motivated in short-term (in mature markets where possibilities to switch exist), politically motivated/influenced in long-term =>
  - less predictable, more volatile & risky than SoS? (potential mismatch between long-term investment decision on supply of producer and short-term economic motivation of consumer)



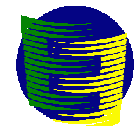
# SoD: purpose & asymmetry

- **SoD:** purpose is to justify long term commitment of resources and investment
- **Two approaches:**
  - LTCs (secured by exclusive concessions or portfolio of strong companies), *or*
  - access to open markets for producers with (for LNG) arbitrage potential
- **Principal asymmetry:** Governments cannot guarantee off takes / consumption, but they can provide predictability of market framework
- **Today's policy (politics)** of consumer (incl. on diversification - SoS) predetermines future long-term decision of producer (SoD)



# Security of Supply: to distinguish economic (long-term) & political (short-term) drivers

- **Long-term** investment gas supply projects (40-50+ years) vs. **short-term** political/electoral cycle (4-8 years)
- **Security of supply** (as a driver) = whether exporting countries meeting:
  - ***their commitments*** (e.g. 2008 = 40 years of secure Soviet/Russian gas supplies to Europe) vs.
  - ***expectations of EU***
- **Diversification (demand for/statements on):**
  - relevant for future supplies from *new* projects only and not relevant for current &/or future supplies within *existing* commitments =>
  - what are reasonable costs of future multiple supplies? How much to pay & who will pay for multiplicity?



# Bridge to Session 3 speeches

## Need for diversification:

- Some concerns about investment happening at the right time in Russia and the capacity of Russia to balance these challenges:
  - exports, potentially increasing, also to the East,
  - fast increasing domestic consumption,
  - decline of the 3 super Giants (however partly replaced),
  - balance of supply and demand (RF/CIS) by Caspian/Central Asian gas
- Difference between contractual commitments of Russia and expectations by EU

however possibly reduced by impact of:

- power plant choice on demand for gas in Europe (some trends away from gas)
- new drive for energy efficiency

## Instruments:

- pipeline vs. LNG
- LNG with or without LTC (if import terminal without LTC: you only get entrance to a competition to outbid other consuming countries)
- LTC vs. liquid markets

