



RUSSIA-EU DEBATE ON NATURAL GAS ISSUES WITHIN MULTILATERAL ECT PROCESS

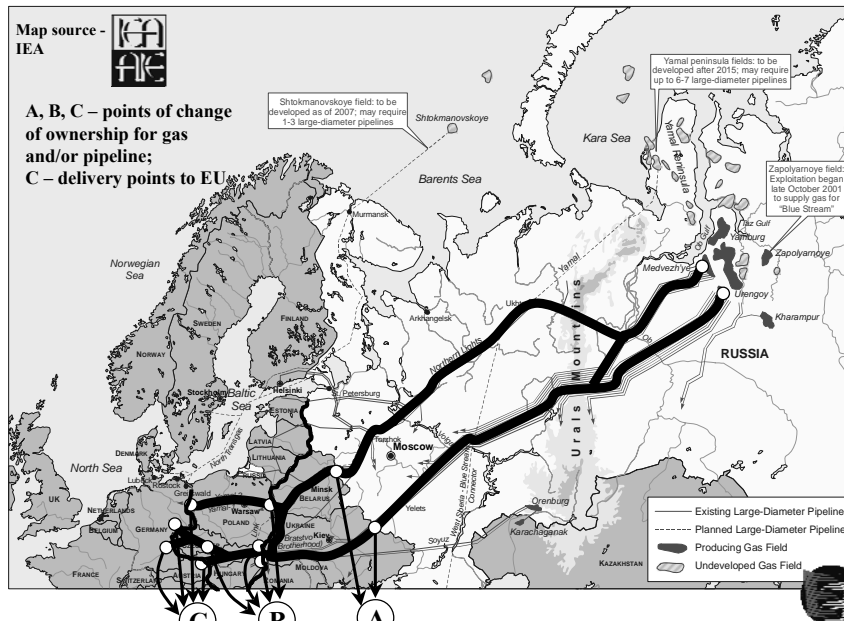
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Session on “Natural Gas, Today’s Fuel of Choice and Overcoming Future Challenges”

UNECE Committee on Sustainable Energy, 15th Annual Session
Special Focus: “Sustainable Energy Policies: the Key to Energy Security”

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RUSSIAN GAS EXPORT TO EUROPE: ON-BORDER SALES AND TRANSIT LEGS



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MAJOR ELEMENTS OF RUSSIAN GAS EXPORTS TO EUROPE:

- **Long-term “take and/or pay” export contracts:**
 - Duration 15-20+ years (project financing/upstream development);
 - Pricing (EU import prices) - replacement value of alternative fuels (mostly fuel oils) netted-back to delivery points;
 - chance and risk of resource rent - to resource owner;
 - Different export price levels at the same delivery point for Russian gas destined for different end-markets
- **On-border (“old” EU-15) sales**
 - Delivery points at former USSR/COMECON border (historically proved mitigation of political risks), now inside EU-25
- **Key role of transit**
 - No direct supply to EU-25 (except for Baltic states);
 - High number of transit states

This organisation of gas supplies to Europe proved its reliability and efficiency through last 30 years, incl. the Cold War and post-Cold War period



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ROLE OF LONG-TERM SUPPLY CONTRACTS IN GAS SUPPLIES TO EU MEMBER-STATES

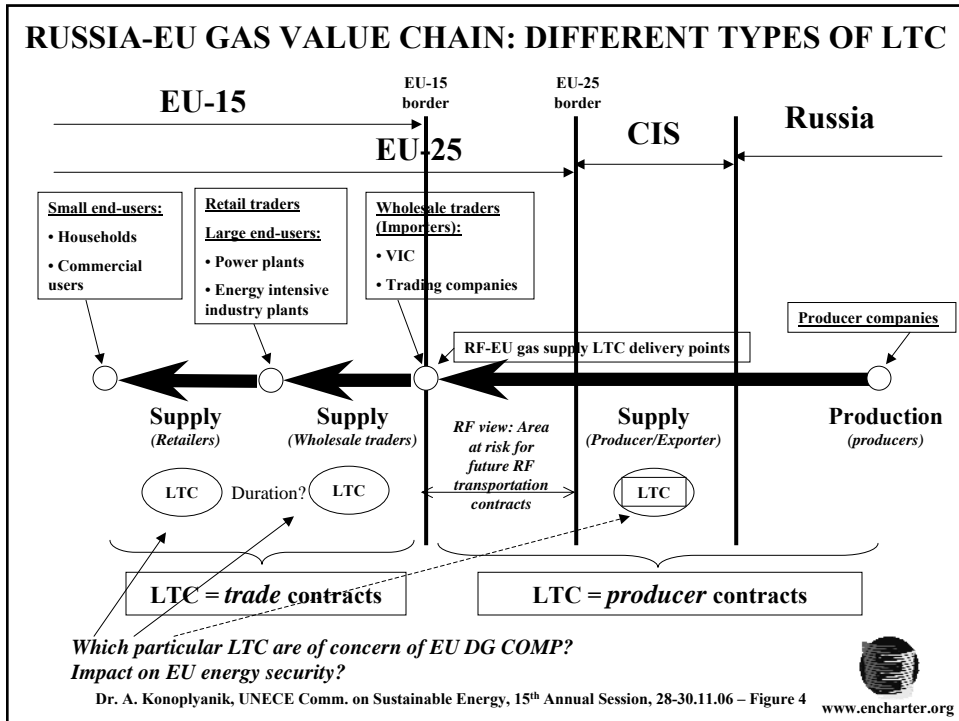
	Italy	France	Germany	Belgium	Greece
Total supplies in 2002 (BCM)	72.5	44.2	94	17.5	2.1
Share of imports in total supply (%)	80	96	82	100	100
Share of LTC in total supply (%)	>90	94	>90	91	100
Average residual duration of contracts (years)	14	15	11	NA	13

Source: ECS calculations



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ROLE OF LONG-TERM CONTRACTS IN GAS SUPPLIES TO EU MEMBER-STATES: ... AND AS OF TOMORROW (two EU official statements)

Item 25: “Long-term contracts will continue to be an important part 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 [of Rome, 1958 - AK], including competition rules. It is therefore necessary to take them into account in the planning of supply and transportation capacities of gas undertakings.”

Source: DIRECTIVE 2003/55/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 26 June 2003 concerning common rules for the internal market in natural gas and repealing Directive 98/30/EC

Item 11: Long-term contracts have played a very important role in securing gas supplies for Europe and will continue to do so.

Art. 2(1): ‘long-term gas supply contract’ means a gas supply contract with a duration of more than 10 years

Source: Council Directive 2004/67/EC of 26 April 2004 concerning measures to safeguard security of natural gas supply

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ENERGY CHARTER PROTOCOL ON TRANSIT

- **End of multilateral phase of negotiations - Dec'2002**
- **Three outstanding issues were left between Russia and EU to be solved first on bilateral level:**
 - 1) Contractual mismatch (supply vs. transit arrangements),
 - 2) Application of TP within the REIO (within EU),
 - 3) Transit tariffs: relation between cost-reflectiveness and auctions as congestion management mechanism
- **RF-EU bilateral consultations restarted Oct'2004 and continued on unofficial expert level till June'2006**
 - 9 RUF/EU/ECS meetings in 2005-06 => concurrence among experts on issue (3) on congestion management + on need for long-term capacity booking
- **17 ECC (Nov 20, 2006):**
 - RF-EU continue bilateral talks in format they would prefer and inform ECC/TTG regularly;
 - TTG discuss on substance multilaterally

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ECT: RUSSIA-EU DEBATE ON TRANSIT TARIFFS

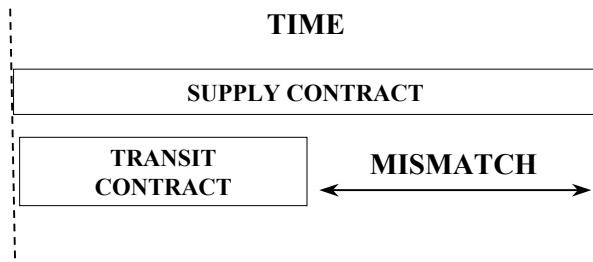
- ECT Art.7 => Non-discrimination for energy in transit => to be treated no less favourably than energy originated in or destined for the transit country itself (Art. 7.3)
- Key concern of RF State Duma regarding ECT ratification
- Debate: Non-discrimination for energy in transit, compared to:
 - All types of energy flows (incl. domestic transportation), or
 - Only cross-border energy flows (excl. domestic transportation)
- ECS fact-finding study “Gas Transit Tariffs in selected ECT countries” (Jan.2006): at least in 4 of 6 EU states (Austria, Belgium, Poland, Slovakia) transit tariffs are *higher* than domestic tariffs

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MISMATCH BETWEEN LONG-TERM SUPPLY CONTRACT AND CONTRACTED TRANSPORTATION / TRANSIT CAPACITY



Mismatch between expiration dates of long term supply (delivery) contract and transit contract as integral part to fulfill the delivery contract creates a risk of non-renewal of transit contract.

Core issue: guarantee of access to transit capacity to match duration of supply contract.

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**EXAMPLE : DEFINITION OF AVAILABLE CAPACITY (AC):
KEY POINT FOR TP DISCUSSION = INVESTMENT-ORIENTED
PROVISION**

TP Art.1.2(c) : In the CPs where transportation and supply are not dis-united, TP definition of AC protects for VICs (producers + shippers + pipeline-owners), within the particular time-frame, access to throughput capacity for the future oil/gas production volumes from the fields where production licenses belongs to such VICs.

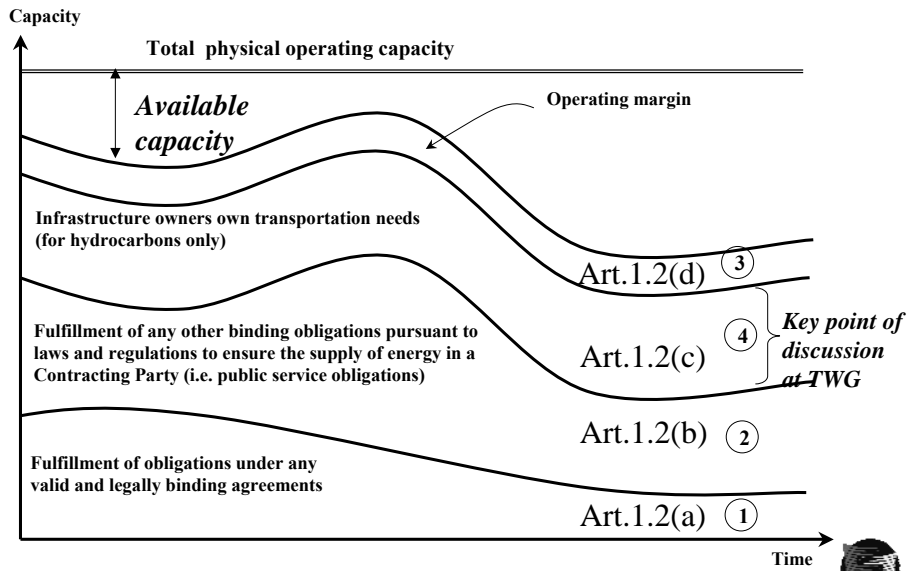
(That is an objective investment-oriented provision based on “project financing” demands of financial institutions)

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EXAMPLE: DEFINITION OF AVAILABLE CAPACITY (TP Art.1)



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Thank you for your attention!

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