

EU's growing energy import dependency a major risk

By Kari Liuhto

Russia plays a strategic role in the EU's energy supply. Russia accounts for 24% of the Union's gas consumption and 29% of its oil consumption. At the moment, the EU's own gas production covers 43% of our gas consumption and 14% of our oil consumption. The energy self-sufficiency of the EU decreases dramatically in the coming decades.

In 2030, the Union will only be able to cover 16% of its gas needs and 5% of its oil supply. Obviously, Russia's role as the Union's oil supplier does not increase as much as the share of Russian gas in the EU's gas consumption. When predicting future developments, we should keep in mind that Russia's oil reserves are not as significant – some 6-9% of the globe's oil – as their natural gas reserves, which represent 25-30% of the world total.

Russia is the world's second largest producer of oil after Saudi-Arabia, and already some 70% of Russian oil is exported – to a large extent to the European Union. Russian oil production has not increased in past few years. One reason for stagnation is the increasing role of the state in the oil business. Some five years ago, the state covered only 20% of oil production, whereas today it is already nearly 50%.

Russia is the largest gas producer in the world. The state-controlled Gazprom is a dominant actor, representing some 85% of the country's natural gas production. An important factor related to gas production is the fact that Gazprom's major gas fields are depleting, and it is anything but certain, whether enough new major fields can be opened during the next 10-15 years to replace the depleting ones. Secondly, even if private natural gas producers are rapidly increasing their production, they are not necessarily able to fill the gap caused by Gazprom's declining production.

When one analyses the capability of Russia to export more natural gas, one should remember that Russia's growing economy requires more energy. It has been estimated that Russia's own gas consumption increases by around 2% annually. Another factor to remember is that more than half of Russia's primary energy production is covered by natural gas.

Therefore, Russia should build new sources of energy, such as nuclear energy, in order to be able to export significantly more natural gas. Russia's plan to erect 26 new nuclear units by 2020 is not realistic, as it would require the building of two new nuclear power stations per year for the next 12 years. All in all, Russia should invest some \$ 1000 billion in energy production and infrastructure, to be able to meet the future needs of the country's energy appetite.

A much more realistic option than building new energy capacity is investing in energy saving. The World Bank estimates in its fresh report that by investing \$ 320 billion in energy saving, Russia would be able to reduce its primary energy consumption by 45%. The payback time of these energy savings investments is just 2-4 years.

If Russia is able to produce enough gas to meet the growing needs of the EU, then one should find the optimal way to distribute the gas from remote locations to

consumers. As no major break-through in Russia's LNG production is likely and Russia's gas tanker fleet is insufficient to ship the gas, it seems that pipelines will remain the main channel for gas transportation. In order to increase the flow of natural gas to the EU, old pipelines should be repaired and new pipes should be constructed.

When the final decisions are taken concerning the routing of new pipelines, one should first prioritise the routes which are the most environment-friendly. Secondly, one should prioritise those routes which truly integrate Russia, the EU member states, and the countries-in-between. The Nord Stream and the South Stream have received a lot of criticism since they neglect the interests of many countries, such as Ukraine and Poland. The gas supply can truly integrate Europe, only if gas transit forces countries to talk with each other. Otherwise, gas becomes a major disintegrating force within the EU and Europe as a whole.

It is evident that Russia is a strategic partner for the EU, but is the interdependency between the EU and Russia sustainable. Those who believe in the sustainability of the interdependency seem to neglect the fact that Russia does not aim to stay a natural resource base for the EU, but that Russia wants to develop its own industry and army, and become a super power once again. In this context, one wonders if the super power with a guided democracy would become a competitor rather than remaining a credible partner for the EU in the long-term.

The interdependency between the EU and Russia is not developing favourably from the European point of view, since we are becoming more dependent on Russian energy, whereas Russia may become less dependent on European machines and cars. Moreover, in a crisis situation, Russia could move on without European machines and cars, but the EU would have considerable difficulties in replacing Russian energy in case of non-delivery. I dare to argue so, even if it is a well known fact that oil and gas account for half of Russia's budget income, and the EU is the largest external buyer of Russia's energy.

In addition, one should not forget that the EU's attempts to diversify its energy sources can be even less successful than Russia's attempts to diversify its energy exports. Therefore, the EU should seriously consider how to increase its own energy self-sufficiency instead of increasing its energy import dependency on Russia.

Should the EU be unable to design a common energy policy for itself, the Kremlin will create energy policy for Europe.

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