

Commercial and governance challenges before the exit routes for Caspian and other alternative gas supplies in Central and Eastern Europe

Tbilisi, December 5, 2016
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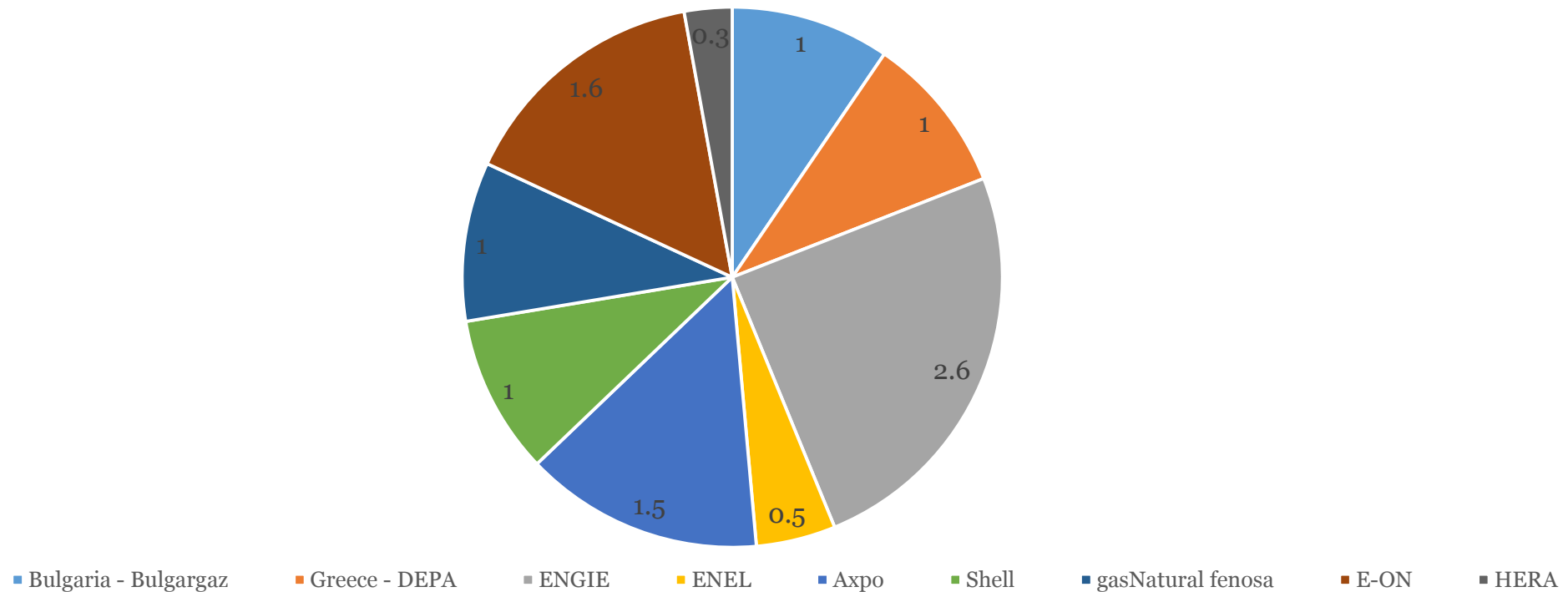
- Commercial Challenges for Exit Routes in SEE and CEE Regions
- Governance Issues and Regional Cooperation
- Russian Influence as a Bottleneck

1. Commercial Challenges

TAP Exit Routes

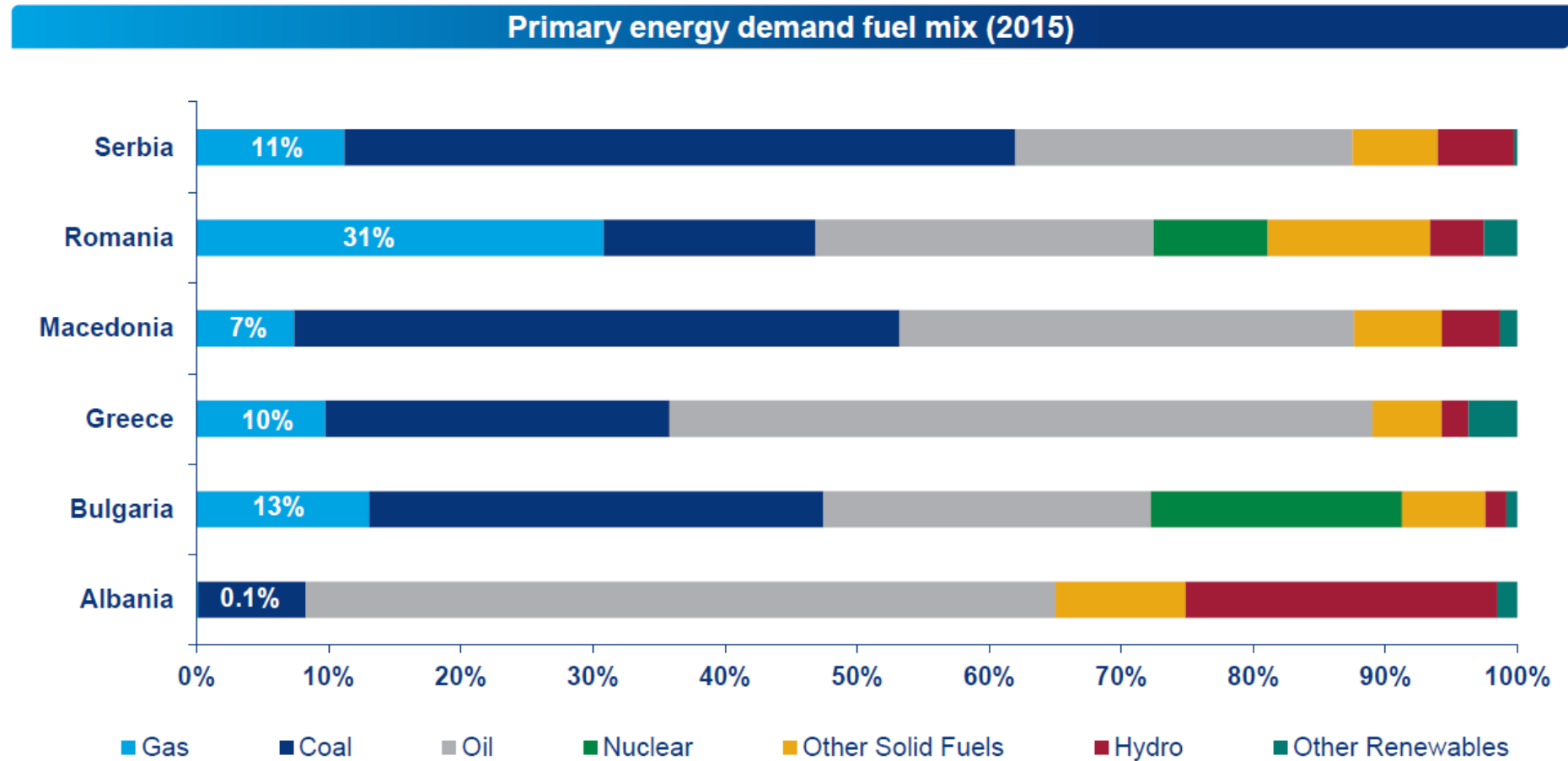


Contractual Agreements for TAP Gas (bcm/yr)



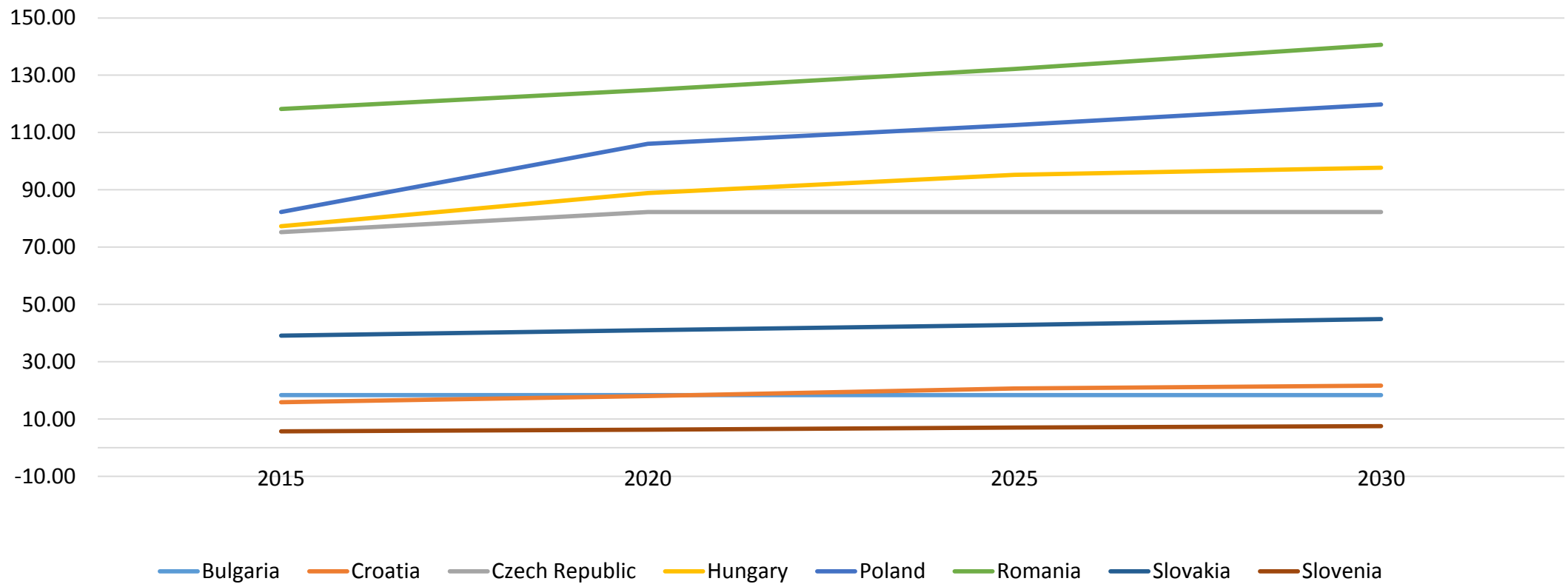
Source: Wood Mackenzie, CSD

Limited Gas Consumption



Source: EUROSTAT, Wood Mackenzie

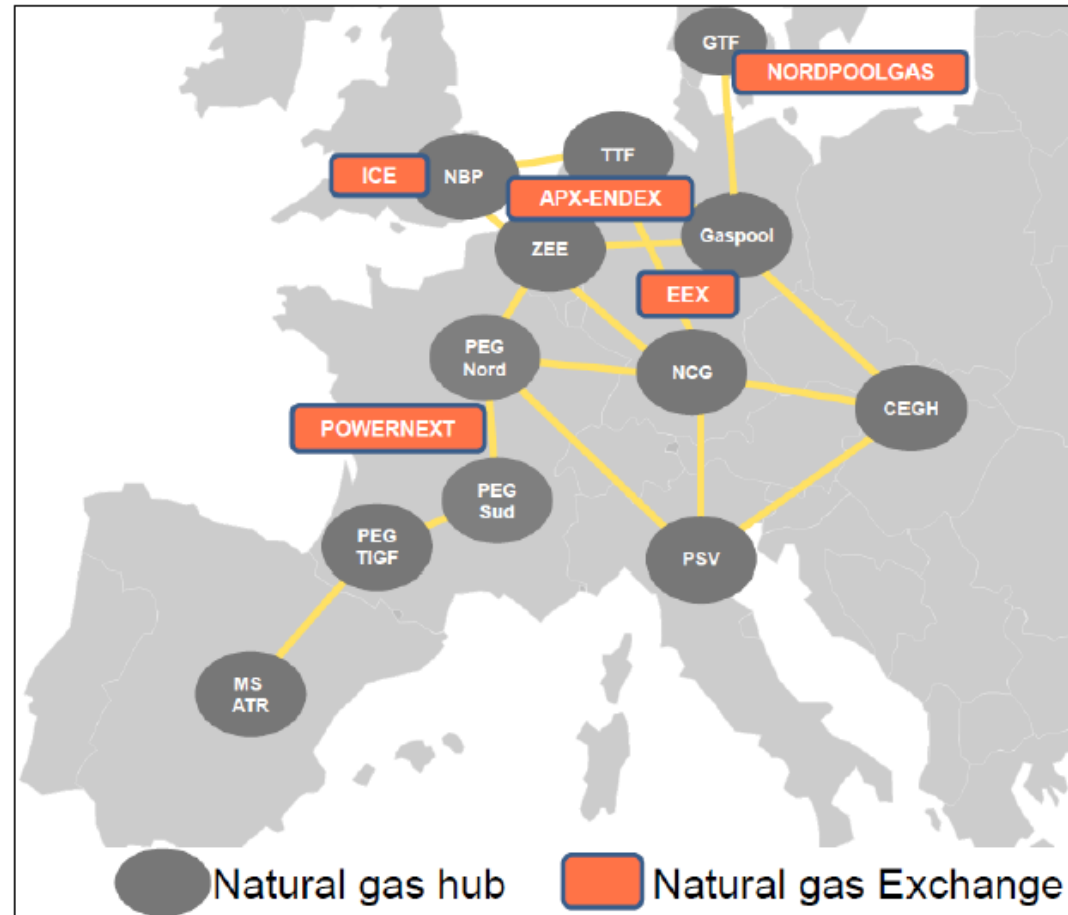
The Future of Gas Demand in the SEE/CEE Regions



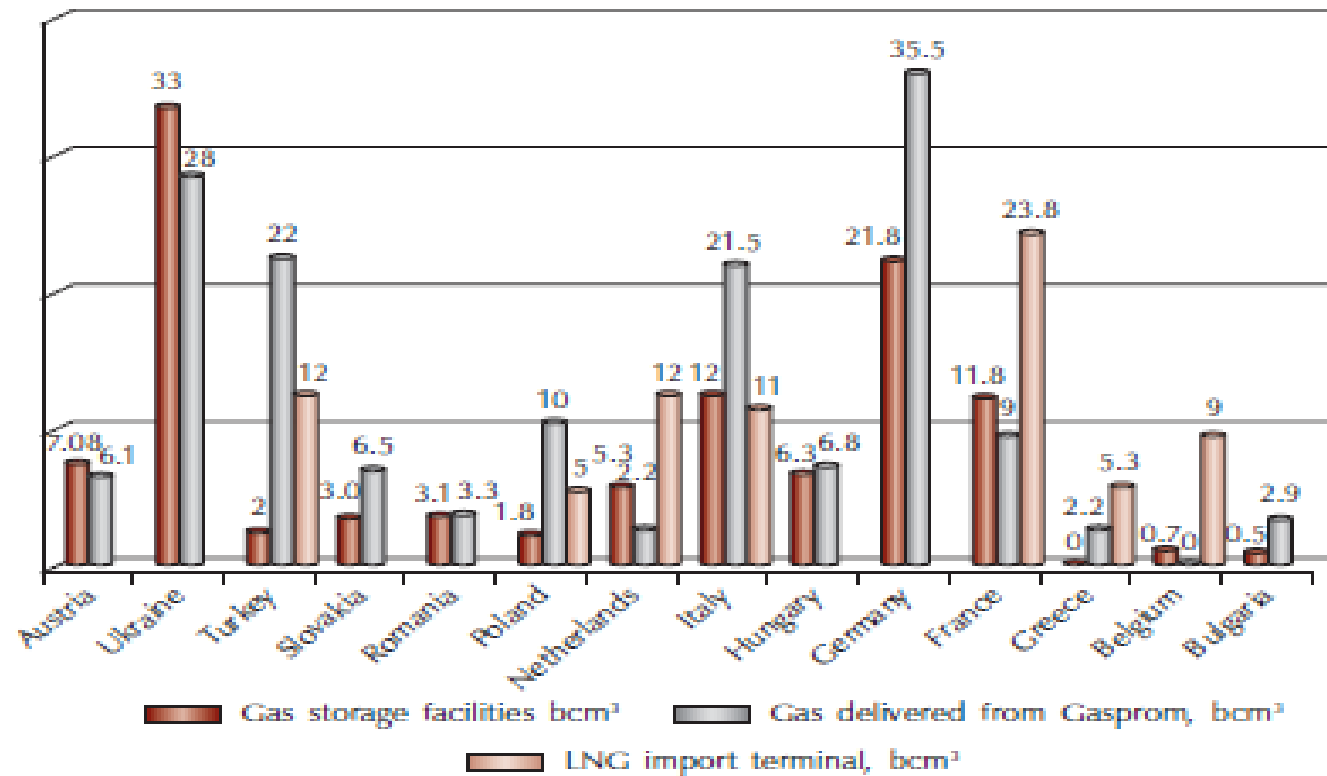
Source: Booz Allen Hamilton, CEEP

2. Governance Challenges

Still an Energy Island



Gas Supply Security - SEE as the big outlier



Source: CSD

Governance Deficits in the CEE

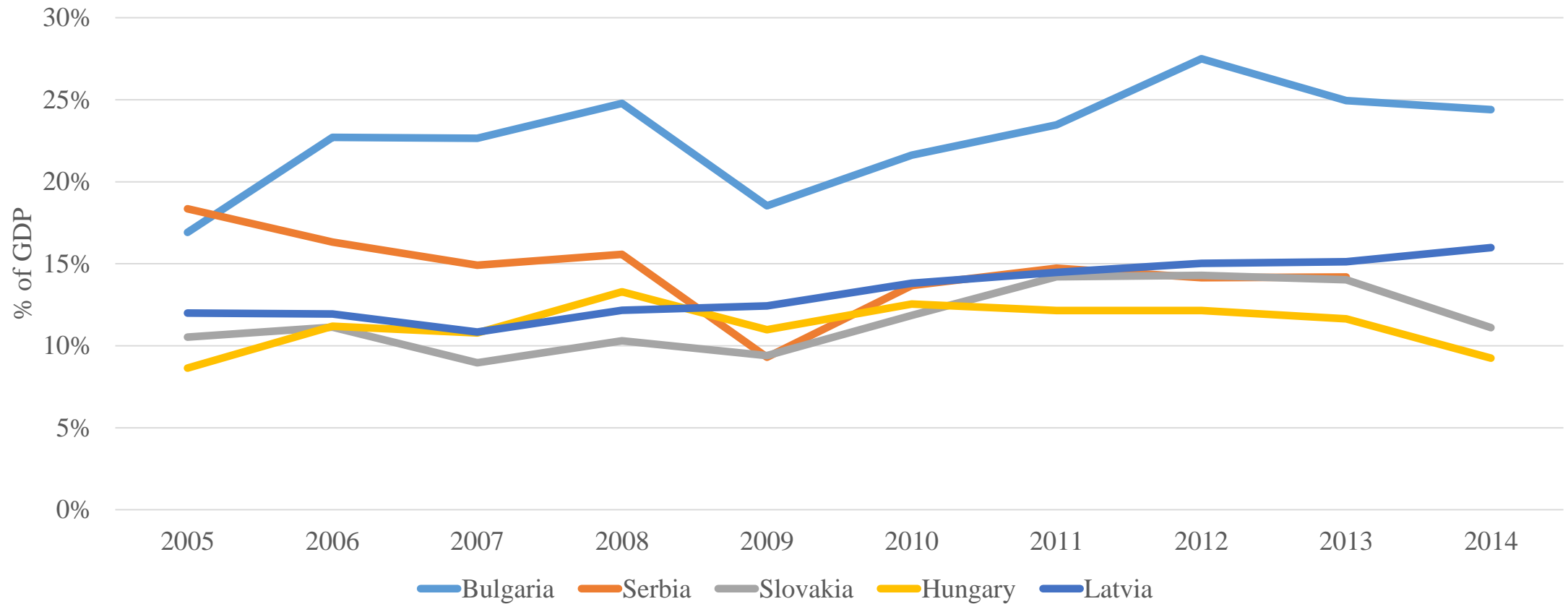
- Regulatory obstacles for energy market liberalization
- Inefficient corporate governance of energy SOEs and strategic energy projects
- Participation of economically unviable large energy infrastructure projects - the case of South Stream
- Capture of the state energy policy by private local or foreign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

IGB - a case study of bad governance

- Project finance structure and the curse of the merchant model
- Prohibitive high transmission tariff and cost escalation
- Inefficient project management with large delays
- Limited 'out-of-the-box' thinking for an alternative solution to the financial viability of the project

3. Russian Influence as a Bottleneck

Russian Economic Footprint

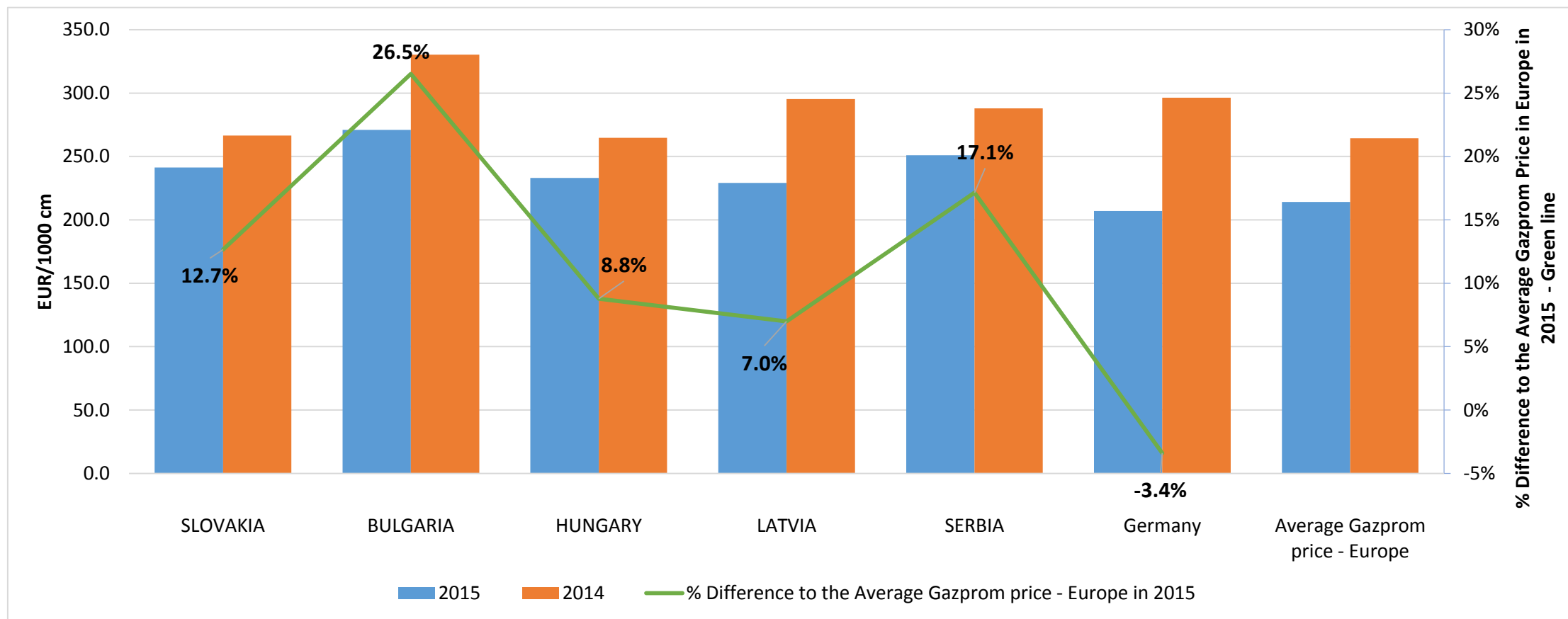


Source: Author's calculations based on EUROSTAT, Data from National Central Banks and Corporate Databases

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

The Natural Gas Import Price in CEE in Absolute Terms and Relative to the Average Gazprom Price for Europe



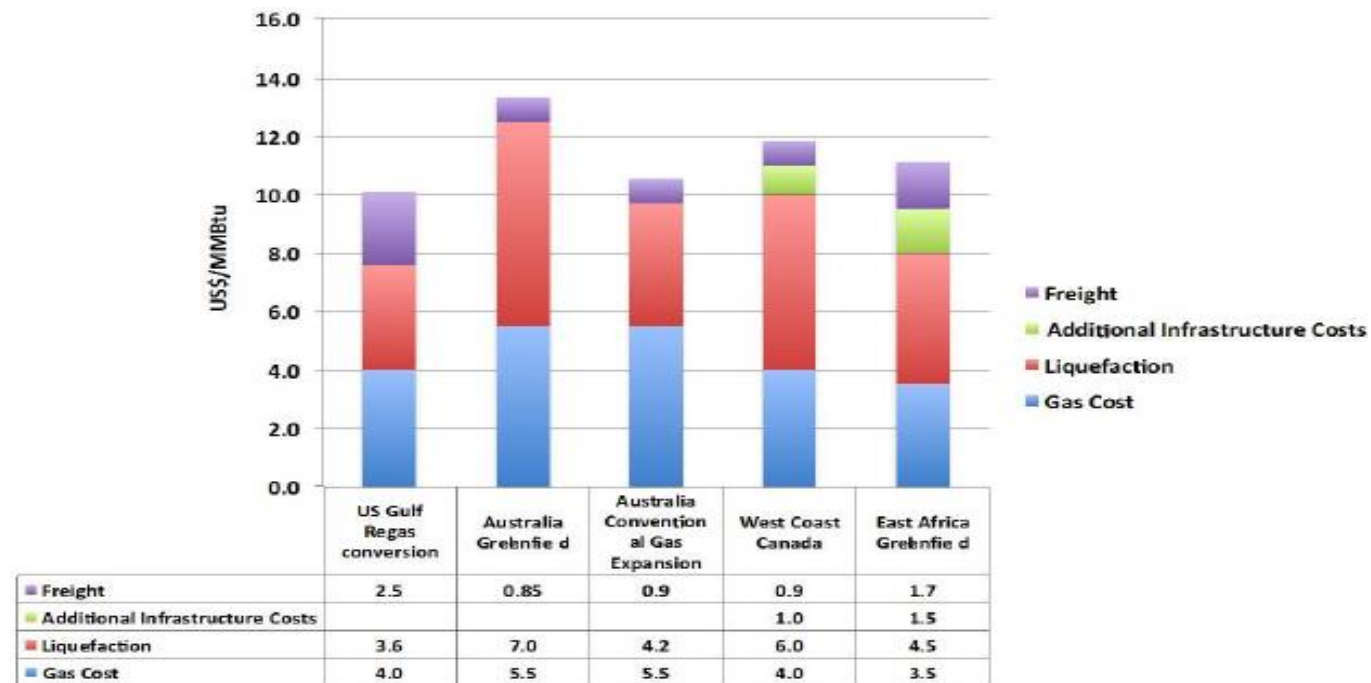
Source: CSD

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

Options for the Future - LNG?



Source: OIES

Thank You!

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