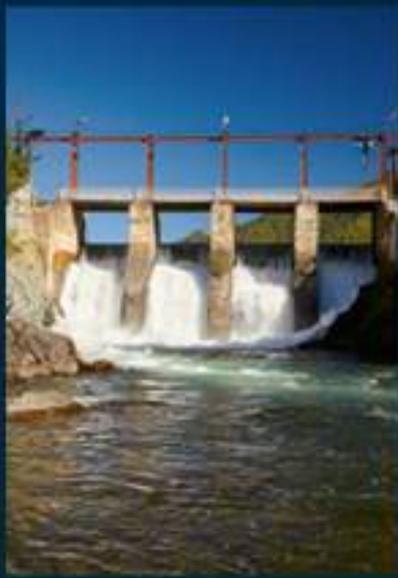




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EUCERS Newsletter

European Centre for Energy & Resource Security
Department of War Studies, King's College London

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Introduction

Welcome to our 34th edition of the EUCERS Newsletter.

This month at EUCERS is all about the current crisis in Ukraine and the connected energy security issues.

In our general article section, firstly, Marina Petroleka, Head of Energy and Infrastructure at Business Monitor International, writes on the opportunity for European shale gas developments vis-à-vis Europe's dependence on Russian gas. Secondly, Iolanda Porto assesses the EU's energy situation in light of the recent crisis in Ukraine.

In the Activities section we provide you with some Background Information for the upcoming roundtable discussion, titled "Ukraine – Crimea: Is Shale Gas from the U.S. an Alternative?" For details regarding the event taking place on April 30, please refer to the Announcement section.

In EUCERS on the Road we will inform you about conference participation and presentations of our members, as well as latest publications and interviews.

I hope you enjoy the newsletter!

Justus Andreas
KAS- Research Fellow at EUCERS, King's College London

In this Month's Edition:

- **Introduction**
- **Newsletter articles**
 - Russo-Ukrainian Rift Adds New Impetus to European Shale Gas Development
By Marina Petroleka
 - Energy divides: the EU between its member states and Russia
By Iolanda Porto
- **Activities**
 - Background Information for EUCERS/ISD/KAS Energy Talks: Ukraine – Crimea: Is Shale Gas from the U.S. an Alternative?
Background Information
By Justus Andreas
- **Announcement**
- **EUCERS on the Road**
- **Publications**
- **Contact EUCERS**
EUCERS on Facebook and Twitter
- **EUCERS Advisory Board**
- **Acknowledgements**
EUCERS Partners and Sponsors

ARTICLES

Russo-Ukrainian Rift Adds New Impetus to European Shale Gas Development

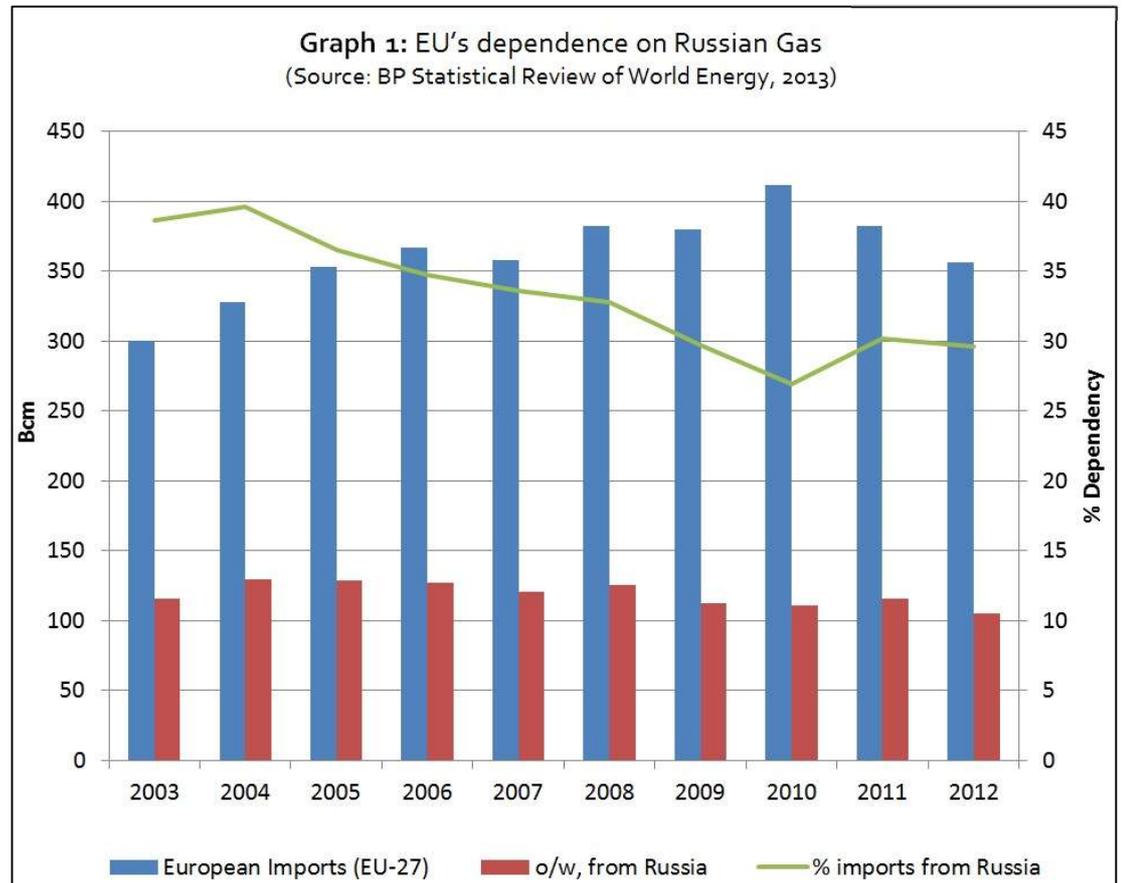
Marina Petroleka

One of the major consequences of the Russo-Ukrainian crisis is a renewed focus on European energy security at the very top levels of European policy making. While accelerating US liquid natural gas (LNG) supplies to Europe, greater use of renewables and better gas transmission interconnections are prospects put forth to enhance diversification of supplies and European energy security, the true game-changer for the European energy paradigm could take place a lot closer to home; in the shale and tight gas fields of Europe.

This is especially so on the Eastern European frontier, where countries are particularly dependent on, or feel vulnerable to, the Russian energy grip. But the increasingly chilly relations with Europe's largest supplier of natural gas, Russia, could also catalyse a change in sentiment in Western Europe one notch in favour of shale gas E&P, where policy has been divided between countries promoting exploration (UK, Spain), lukewarm support (Germany) and outright rejection (France).

Diversification efforts, including greater use of renewables and increase in coal for power generation, as well as (crucially) the economic recession in Europe has lowered demand for natural gas. EU-27 consumption of natural gas in 2012 was 440bcm, down from 493bcm in 2008, according to data from the BP Statistical Review. The latest available data show that Russian gas made up 30% of total EU-27 gas imports in 2012 compared to 35% in 2006 (at the time of the first Russo-Ukrainian gas dispute).

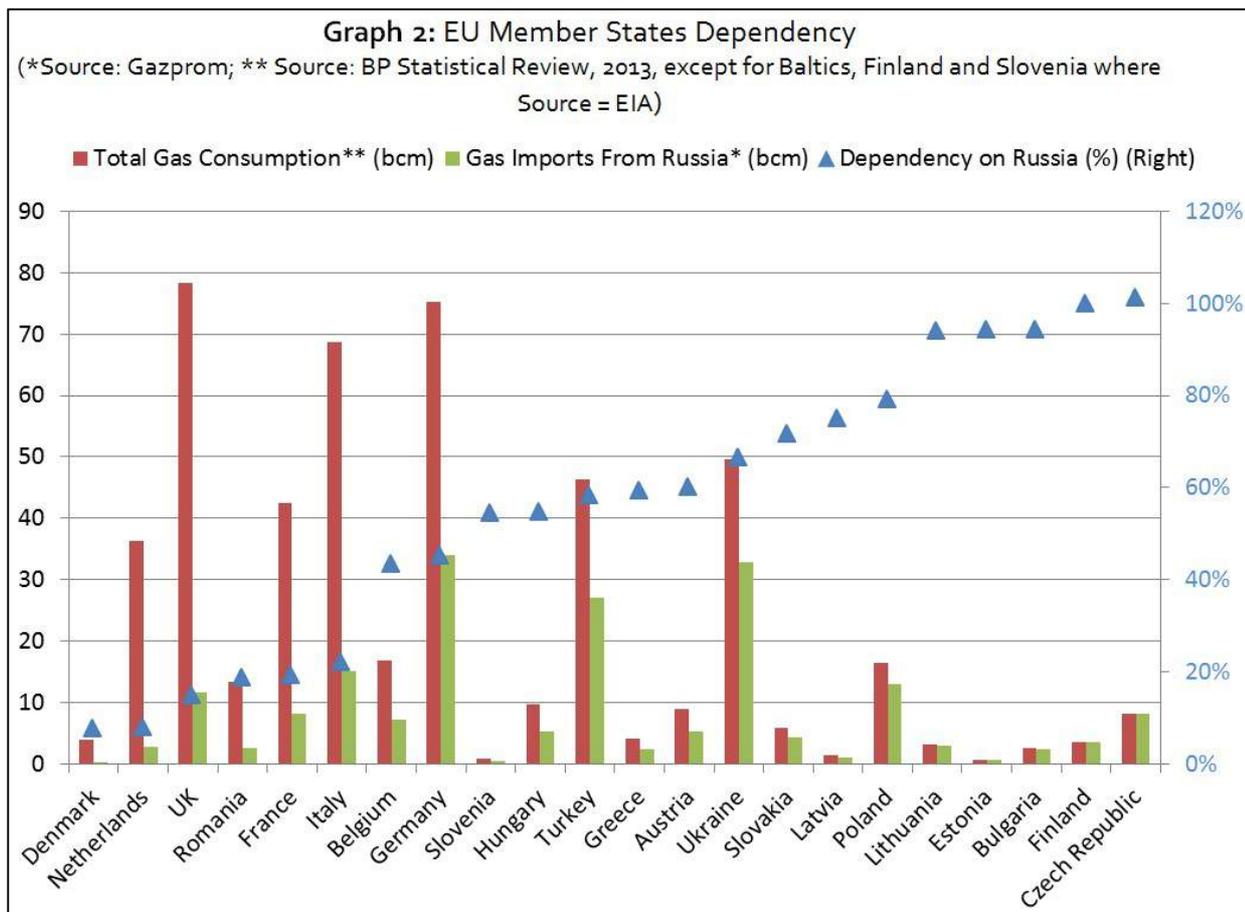
Marina Petroleka is Head of Energy & Infrastructure Research at Business Monitor International in London, where she manages a team across the company's offices in London, New York and Singapore. She specializes in the global energy and infrastructure sectors, with expertise on both conventional and unconventional oil & gas sectors and on infrastructure development policy.



The data in the chart below show the level of varying dependency of European markets to Russian natural gas supplies. The higher the level of dependency, the higher the propensity of the country to explore alternative, preferably indigenous, sources of natural gas.

Germany and Italy are the largest importers in terms of volumes in the European Union, but the Baltics, Poland, Ukraine, Central Europe and Balkans are the least diversified and consequently much more dependent on Russia for their natural gas supplies.

Security and diversification of energy supplies has been an omnipresent feature of the European energy policy, though through the years and in practice this has been implemented at varying degrees of consistency.



The tide is changing though. In one of the most direct announcements in energy strategy shifts yet, the European Council tasked the European Commission on March 21st to deliver a plan in time for the June 2014 Council meeting on how to reduce Europe’s energy dependence, making specific reference to Russia. In a statement marking a break with previous softer language towards their main supplier, European Council President Herman Van Rompuy noted: “Today we sent a clear signal that Europe is stepping up a gear to reduce energy dependency, especially with Russia”¹

Energy efficiency, renewables, US LNG imports (under the auspices of the under-negotiation Trans Atlantic Trade and Investment Partnership), internal transmission infrastructure and the Southern Gas Corridor will all feature prominently in the plan. Considering though the vast shale and tight gas resources estimated to be available under European soil, a reference to shale gas exploration is also highly likely. Even more so, considering that new legislation

by the European Parliament while imposing tougher regulations for conventional oil and gas exploration did not include shale gas²; therefore keeping the door open for unconventional exploration in the future.

Table 1: Unproven, Technically Recoverable Shale Gas Resources (tcm)

Poland	4.2
France	3.9
Ukraine	3.6
Romania	1.4
Denmark	0.9
Netherlands	0.7
UK	0.7
Bulgaria	0.5
Germany	0.5
Sweden	0.3
Spain	0.2

¹ “EU plans to reduce Russian energy dependence”, Euractiv, 21 March 2014 <http://www.euractiv.com/energy/eu-leaders-discuss-reducing-ener-news-534344>

² “In light of Ukraine, Europe takes another look at fracking”, Keith Johnson, Foreign Policy, 14 March 2014

In the largest study of its kind published to date, the US Energy Information Administration estimates that Europe (excluding Russia) contains nearly 600 trillion cubic feet (tcf), or 17 trillion cubic meters (tcm) of unproven, technically recoverable, shale gas resources.³ As a matter of comparison, European annual conventional natural gas production was 287 billion cubic meters in 2012 according to data by the EIA and annual consumption reached 483bcm the same year.

Poland and Ukraine have been the trailblazers in European shale gas exploration. Poland has always been insecure about its reliance on Russian supplies and this crisis has only reinforced Poland's commitment to take advantage of as much of its indigenous resources as possible. On March 11th 2014, the government of Poland proposed new tax breaks lasting to 2020 to incentivise faster exploration of its shale gas resources and allay investor nervousness about the nebulous fiscal and regulatory regime in Poland's shale gas sector that has caused delays in exploration.

Similarly, one of the two major prospective basins in Ukraine is located in the west of the country (Lviv basin) near the border with Poland, which is within the government's effective area of control. In November 2013, Chevron concluded a deal, with initial investments of US\$350mn in exploratory work at the Oleska site in western Ukraine, spanning the Lviv and Ivano-Frankivsk regions.

Lithuania, which is nearly 100% dependent on Russian supplies, ended negotiations with Chevron in October 2013 over the only shale gas exploration licence issued in the country. Recent events in Ukraine however, have prompted the government to rapidly revise the deal-breaking fiscal and tax proposals in an effort to revive negotiations for shale gas exploration. The Lithuanian government's Strategic Committee passed a ruling that scraps all taxes for the first 3 to 4 years of production from shale gas. The Minister for Environment recently stated he expects a revised shale resources tax rate would be around 15% thereafter, down from the previous proposal of 40%.

Further assisting progress, the Lithuania State Geological Service (LSGS) has submitted a regulatory draft covering aspects including tender terms and conditions, classification of hydrocarbon resources and amendments to the environmental impact assessment. The Lithuanian Parliament is due to assess the new legislation and tax

changes, potentially passing the proposals over the next few months. This will lead the way to a new, potentially more competitive shale gas tender round in western Lithuania, which according to the Environment Minister could take place as early as May 2014 and before the end of June.

Chevron is also present in Romania's shale gas sector, where the government has been very supportive of its development. However, the company has seen limited progress due to strong anti-shale gas protests at its drill sites, particularly in the Vaslui region. After suspending operations in October 2013 due to the demonstrations, Chevron has now announced it will return to the Pungesti drill site within April for a 90-day drilling programme. With a stronger mandate from the government to go forth with exploration opposition will not likely thwart the exploration efforts this time.

While the deep insecurity about dependence on Russian energy supplies has been the guiding principle behind the endorsement of unconventional exploration in Eastern Europe, the issue of hydraulic fracturing has been divisive and highly politically sensitive in Western Europe.

Large industrial lobbies, most notably in Germany and France, have become increasingly vocal in their support of shale gas exploration in Europe, opposed by an equally vocal environmental lobby. The argument in favour of shale gas exploration has been primarily underpinned by: a) claims of losing competitiveness to the United States whose abundant natural gas has lowered costs of production and, b) prospective economic benefits of supporting a new sector in Europe such as new sources of tax revenues and lower unemployment.

The UK and Spain are the only countries that have embraced and promoted the exploration of shale gas and use of hydraulic fracturing with UK independent explorer Cuadrilla spearheading exploration in the Bowland Basin in the UK. Exploration for shale gas is also underway in Spain in the Basque country and the government recently opposed legislation to impose a country-wide moratorium on hydraulic fracturing.

France, with the second largest technically recoverable shale gas resources in Europe after Poland (see table above), has banned hydraulic fracturing. The debate in France however is far from over, with newly appointed Economy and Industrial Renewal Minister, Arnaud Montebourg, openly in support of shale gas exploration in France, echoing support from the labour unions who see this a source of new employment.

³ "Technically Recoverable Shale Oil and Shale Gas Resources: An Assessment of 137 Shale Formations in 41 Countries Outside the United States", US Energy Information Administration, June 2013

Germany's position has been more ambivalent, with a moratorium on hydraulic fracturing in place, though stopping short of an outright ban. Large industrials such as BASF and Siemens have come out strongly in favour of shale gas exploration in Europe, and Germany in particular, while also increasingly opposed to the German policy of Energiewende (energy transformation to a low carbon economy) which has in the words of RWE CEO has "produced the worst structural crisis in the history of energy supply".⁴

Within the grand coalition between the CDU and SPD positions are polarised, with the CDU mildly in favour and the SPD strongly in opposition to hydraulic fracturing, resulting in a policy stalemate on shale gas exploration within the government. Notably however, the European Energy Commissioner Günther Oettinger called on Germany to allow hydraulic fracturing to take place as part of a broader strategy to reduce reliance on Russian supplies.⁵ This is not only putting pressure on German policy makers to clarify their stance on the matter, but also, in no uncertain terms, outlining the stance of the EU's Directorate General for Energy on the issue ahead of the debate and finalisation of the EU's energy strategy of diversification.

The arguments for those in favour of shale gas exploration in Europe have been concentrated primarily on the economic aspects thus far with a view of recreating for Europe the energy renaissance underway in the United States. The Russo-Ukrainian rift, which is rapidly developing into a Russo|Euro-Atlantic rift, could prove to be the main catalyst behind new momentum for the European shale gas industry.

Energy divides: the EU between its member states and Russia

Iolanda Porto

When the Berlin Wall fell down 25 years ago, the international community had believed that Russia would not have regained any relevant weight in international affairs: the obsolete bogeyman had been vanquished once and for all and the world was ruled according to the unipolar setting. The American superpower had developed a set of

⁴ "Germany's utilities struggle to adapt to renewable revolution", Reuters, 3 February 2014 <http://uk.reuters.com/article/2014/02/03/uk-germany-utilities-strategy-analysis-idUKBREA120MS20140203>

⁵ "Oettinger warnt vor "Gaskrise" in Europa", Die Welt, 19 April 2014 <http://www.welt.de/politik/deutschland/article127105508/Oettinger-warnt-vor-Gaskrise-in-Europa.html>

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multilateral cooperation that had allowed it to retain the leadership gained after World War II.

However, any analysis of the current international relations can realise that this belief was reckless. During the first decade of the XXI century, Russia has come back to influence the international political equilibrium, although the factors that still give it political power are different from those of twenty-five years ago. If in the second half of the XX century those reasons were social/anthropological ones (summarised in the communist project), the new factors are of a geopolitical nature. After all, Russia has never seen its energy resources and pipelines as purely normal commodities. Energy has always been considered a key tool of Moscow's foreign policy, mainly because of the fact that it lacks more benign instruments of influence or soft power, and thus it has to resort to bolder methods (Umbach, 2011)⁶. The energy use as weapon is among other things confirmed in the words of president Vladimir Putin when he affirms that "Russia enjoys vast energy and mineral resources which serve as a basis to develop its economy; as an instrument to implement domestic and foreign policy. The role of the country on international energy markets determines, in many ways, its geopolitical influence."⁷

The failure to ratify the Ukraine-EU Association Agreement by the ex-President Yanukovich in November 2013 – ratification that was significantly deemed to be for Ukraine like the fall of the Berlin wall for Germany⁸– made clear that Russia would have done whatever it takes to safeguard its energy geopolitical interests. Who got surprised by the Russian bold methods, had probably underestimated President Putin's words dating back to 2004 when he believed that if "Russia were to abstain from an active policy in the CIS [Commonwealth of Independent States] or even

⁶ Umbach F. [2011], EU-China Energy Relations and Geopolitics: the challenges for cooperation, in Amineh M.P. and Guang Y. (eds), The Globalization of Energy: China and the European Union, Brill NV, the Netherlands, pp. 31-70.

⁷ Kupchinsky Roman, "LNG-Russia's New Energy Blackmail Tool", Eurasia Daily Monitor, The Jamestown Foundation - April 22, 2009 – Volume 6, Issue 77

⁸ Ukraine compares EU pact signature to 'fall of Berlin Wall', EurActiv, 19.07.2013, in <http://www.euractiv.com/europes-east/ambassador-eu-ukraine-associatio-news-529427>

embark on an unwarranted pause, this would inevitably lead to nothing but other, more active states resolutely filling this political space.”⁹

Putin’s way of thinking in zero-sum game demonstrates that Russia feels challenged by the EU’s attempt to build up useful partnerships eastwards. However, a fundamental question here is: how much has the EU done to prevent Russia from acquiring so much influence in its neighbouring countries? The EU notoriously stems from the creation of a European Steel and Coal Community in 1951 in order to solve the energy problems on the Ruhr basin after World War II. Along the years, the EU has fully become a truly political actor and therefore we can claim the spillover over several and different sectors that followed the creation of the European Economic Community (ECC) can in no way be questioned. Except, ironically, for the energy issue, perhaps.

The problem is that when it comes to deal with energy security, the EU does not speak with a single voice but rather, its action is characterized by fragmentation. Indeed, Russia’s policy of divide and rule by establishing bilateral energy ties with individual EU member states has succeeded in rendering the EU effectively mute and moreover impotent in confronting Russian aggression, within or outside an energy specific policy framework. For instance, German Chancellor Angela Merkel has recently addressed the Bundestag, regretting the lack of effort by Russia to de-escalate the situation surrounding Ukraine.¹⁰ But we have several doubts as to whether these words can actually affect Russia’s position. Indeed, Germany’s visionary *Energiewende* (energy shift) put in place after the Fukushima disaster may win the applause of those heated by the environmental cause. Yet, this policy will probably have the result to strength immoderately the already old and blessed energy relationship between Germany and Russia, at least in the short- and medium-term. As a matter of fact, it is worth noting that Russia and Germany agreed to double the Nord Stream capacity. The common intent was expressed by Chancellor Angela Merkel and president Putin on visit in Berlin¹¹ –which is after all in line with the old

⁹Putin’s speech to a conference of Russian ambassadors on 12 July 2004 in Moscow, Homepage of the President of the Russian Federation, in <http://archive.kremlin.ru/text/appears/2004/07/74399.shtml>

¹⁰Merkel calls on Russia ‘to sit at the same time with Ukraine’, *EurActiv*, 9.04.2014, in <http://www.euractiv.com/sections/europes-east/merkel-calls-russia-sit-same-table-ukraine-301459>

¹¹“Nord Stream, Russia e Germania vogliono l’ampliamento”, *ISPI* online, 5 June 2012, in <http://www.ispionline.it/it/articoli/articolo/russia-eurasia-energia/nord-stream-russia-e-germania-vogliono-lampliamento>, (translated from Italian).

Erdgasröhrengeschäft, the natural gas pipeline deal wrapped up during the Ostpolitik era, against US objections and with billions of dollars of aid from Western Europe.

Likewise, several doubts have been raised about the fairness in concluding deals with producer countries, especially Russia, by the Italian giant ENI. Italy has been blamed for pumping “increasing amounts of financial sweeteners into ENI to subsidize international deals whose financial viability is dubious.”(Youngs, 2010a:117)¹² Indeed, on 14 November 2006 the long-awaited deal between ENI and Gazprom was achieved: Gazprom will extend contracts’ lengths of gas supplies for ENI until 2035, thereby confirming ENI as Gazprom’s first global customer.¹³ Therefore, ENI will be strictly linked to the Russian Gazprom business, not only in the near future but significantly on longer terms.

From the French perspective, cooperation between the EU member states should be organized according to the same principles as the Schengen agreement: only those states that are willing and able to contribute should participate in the initiative (Leimbach and Müller, 2008:19)¹⁴. Likewise, if the UK has always been a supporter of common approaches to ensuring security of supply, this, on the one hand, has not translated into support for enhanced powers for the EU Commission in this area and, on the other, it has not prevented the UK from concluding bilateral deals with producers countries such as Libya and the historical partners in the Gulf.

This lack of co-ordination has of course had the result of strengthening Russia’s position on negotiations and probably, has allowed it to believe that the EU member states most threatened by the security of supply would have turned a blind eye on any audacious Russian action in international affairs such as the annexation of Crimea, but also the invasion of Georgia in 2008.

¹²Youngs R. [2010a], *The EU’s role in World Politics: a Retreat from liberal internationalism*, Routledge, USA and Canada, p.117.

¹³ENI, “ENI e Gazprom firmano accordo strategico”, 14 Novembre 2006 in http://www.eni.com/it_IT/media/comunicatistampa/2006/11/Eni_e_Gazprom_firmano_accordo_14.11.2006_1192442404846.shtml and Giovanelli P., “ENI-Gazprom:il grande scambio sul gas”, *Il Giornale*, 15 Novembre 2006, in <http://www.ilgiornale.it/news/eni-gazprom-grande-scambio-sul-gas.html> (translated from italian).

¹⁴Leimbach B. and Müller F. [2008], *European Energy Policy: Balancing national interests and the need for policy change: the current European Energy Dialogue*, Friedrich Erbert Stiftung Climate Energy Papers, 1:2008

In this context, the US demonstrated to be well wise when it zealously and effectively put pressure on energy companies to construct the Baku-Tbilisi-Ceyhan (BTC) oil pipeline in order to break Russia's monopoly of energy corridors linking the ex-Soviet space and Europe. Completed in 2005, the pipeline was designed to bypass Russia and the Bosphorus strait in delivering crude oil from the Caspian region to Europe. Washington recognized early on that the EU and US security interests would have been better safeguarded by building at least one oil route in Central Asia that would have not been dependent on the political whim of the Kremlin. The same US concern was readily expressed by supporting Nabucco, the corridor project that eventually was laid in favour of the more "pro-Russian" Trans-Adriatic Pipeline (TAP) in July 2013. As a matter of fact, Nabucco gas pipeline project –a 3,300 km pipeline– by running from Azerbaijan via Georgia to Turkey and from there to Austria via Bulgaria, Romania and Hungary, would have bypassed Russian territory entirely. A 2012 report of progress described the importance of this policy. The report stated that "any sign of a weakening EU support to th[is] project[...] would send the wrong signal to the gas producers."¹⁵

On the other hand, TAP will start near Kipoi on the border of Turkey and Greece and from there it will continue onshore crossing the entire territory of Greece and Albania from east to west all the way to the Adriatic Sea coast. Significantly, the TAP route does not compete with any Russian project, while Nabucco was expected to supply the same countries as those reached by the Gazprom-led South Stream pipeline. Therefore the victory of the TAP leaves the Eastern European countries still vulnerable to the Russian control, without hindering Gazprom's interests which is instead expected to increase gas supplies from Russia to Germany through Nord Stream.

The risk is that the US might no longer be willing to stand guarantor for European energy interests, above all when confronted with an EU lethargy, mainly caused by its largest and powerful member states. One might raise the objection that the US has recently shown to be very active about the Ukraine's issue. However, this active participation might be due to the concern of the Eastern and Central European NATO's members, particularly Poland, Hungary and the Czech Republic, namely the most worried and sensible countries to Russian moves. Perhaps confident in its new-

¹⁵European Commission, Report from the Commission to the European Parliament and the Council on the implementation of the European Energy Programme for Recovery, COM (2012) 445 final.

found energy resources endowments¹⁶ or probably because its major site of interest will continue to be the Middle East – the US is increasingly adopting an isolationist energy policy. Indeed, Obama's view of the "reset" with Russia and detachment from European affairs may mean that the US has accepted Russia's primacy over the post-Soviet space.

We might not be wrong in affirming that this is perhaps due to the fact that today –by contrast to ten days ago– Berlin, Rome, and Paris show greater reluctance to pursue any alliance policy that has not passed "Moscow's veto".¹⁷ And after all if much of the debate in the EU has focused on the opportunity to duplicate the American shale-gas experience in order to diversify and eventually increase its energy security, a recent report from the Institute for Sustainable Development and International Relations (IDDRI) has dulled this hope, at least in the short- and medium-term, for a set of reasons that we recall integrally.¹⁸

The EU will have to confront a number of major challenges in the XXI century, the most serious of which is energy security. In this context, it has to be wondered whether the EU can afford its internal discrepancy and the lack of a single voice, just meanwhile other important actors are spectacularly taking the scene in the global political system.

¹⁶Recent studies have claimed that the US has far more commercially exploitable oil and gas reserves than most previous estimates have indicated. Some estimates go so far as to project the US could actually become an energy exporter in the future thereby virtually eliminate imports at some point between 2020 and 2030, under best case assumptions (EIA, Annual Energy Outlook 2013).

¹⁷For instance it is worth noting that the signing of the Association Agreement 'Political Chapters' between the EU and Ukraine was described as celebrated in «a low-key ceremony [...]intended to downplay the importance Kyiv attaches to the pact.», 'Low-key ceremony marks signing of Ukraine's EU association', EurActiv, 21.03.2014, in <http://www.euractiv.com/global-europe/low-key-ceremony-marks-signature-news-534312>

¹⁸'Europe abandons hopes of US-style shale gas revolution', EurActiv, 28.02.2014, in <http://www.euractiv.com/specialreport-industrial-renaiss/Europe-abandons-shale-gas-revolution-news-533546>

ACTIVITIES

Background Information for EUCERS/ISD/KAS Energy Talks:

Ukraine – Crimea:

Is Shale Gas from the U.S. an Alternative?

Justus Andreas

As part of this year's Energy-Talks series, the European Centre for Energy and Resource Security (EUCERS) in cooperation with the Konrad Adenauer Foundation (KAS) in London and the Institute for Strategic Dialogue (ISD) under the overall theme of "*Changing Political and Economic Dynamics of Global Energy Flows*" is holding the second roundtable discussion on 30 April, 2014, on the topic of "Ukraine-Crimea: Is Shale Gas from the U.S. an Alternative?".

While in 2005 the Bush administration actively pursued the construction of multiple liquefied natural gas (LNG) import terminals, these facilities are now being converted for export. This is due to the exponential increase in domestic natural gas production, following what is commonly called the "Shale Revolution", which refers to the extraction of natural gas (and oil) from primarily shale rock formations.¹⁹ By utilising existing horizontal drilling and hydraulic fracturing techniques, the US has been able to increase its overall natural gas output immensely, with shale gas output alone increasing more than six-fold from 1,293 billion cubic feet (bcf) to 7,994 bcf from 2007-11.²⁰

With Europe being highly dependent on natural gas imports, and Russia being one of the primary sources, the recent crisis in Ukraine and the annexation of Crimea by the Russian Federation has resulted in fear for higher gas prices in the future, and severe bottlenecks in case of an escalation. Gazprom has already cancelled the discounted prices of natural gas for Ukraine due to an outstanding debt of \$1.7 billion, which has significantly increased gas prices.²¹

The crisis unfolded following demonstrations on the Maidan in Kiev against the anti-European path chosen by the government. President Yanukovich fled to Russia on February 22, and was subsequently impeached by the Ukrainian parliament. While the new interim-government

¹⁹ For more information, see the Shale Revolution section below.

²⁰ EIA, *U.S. Shale Production 2007-2011*, 2013:
http://www.eia.gov/dnav/ng/ng_prod_shalegas_s1_a.htm

²¹ BBC, *Gazprom hikes Ukraine Gas Prices by a Third*, 2014:
<http://www.bbc.co.uk/news/business-26831678>

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is recognised by the West, Russia continues to consider Yanukovich the legitimate president, and the change of government a "coup d'etat". With the proposal to repeal the law for Russian to be accepted as a regional language, tensions increased especially in Crimea, which consists of a majority of ethnic-Russians. From February 26, pro-Russian forces gradually took control over the peninsula, claiming to defend the Russian population against oppression. This resulted in Western nations – including the EU – imposing economic sanctions on Russia. A referendum held on March 16 indicated that 96% of the population (of an 83% overall turnout) were in favour of joining the Russian Federation. On March 17, the Crimean Parliament declared independence from Ukraine and joined Russia. The referendum, and the consequent secession, was considered unconstitutional by the Ukrainian parliament, and on March 27, the UN General Assembly declared the Moscow-backed referendum of Crimea invalid (100 in favour- 11 against- 58 abstentions). The gradual build-up of Russian troops at the Russian-Ukrainian border combined with recent turmoil in eastern Ukraine have stoked fears of a larger military intervention by Russian forces, despite President Putin's assurances otherwise.

Europe has consequently found itself trapped between the will to act more rigorously against Russian aggression, and its dependence on Russian energy imports for its own energy security. The increase in domestic output in the U.S. has hence triggered hopes for further European import diversification, as well as the potential for a domestic European shale revolution. The latter, however, has so far not taken place due to widespread environmental concerns by the public, little governmental incentives for companies to drill, and an unfavourable land ownership situation. Furthermore, conducted shale explorations, i.e. in Poland have hitherto shown meagre results. Consequently, European hopes lie primarily on natural gas imports from the US.

Generally, the amendment to the Natural Gas Act has deemed LNG exports to Free Trade Agreement (FTA)-countries to be in the US' public interest and export applications are to be approved and export initiated in a timely manner. At the same time, export to Non-FTA countries – such as the EU – requires the Department of Energy (DOE) to post "a notice of application in the Federal

Registry for comments protests and motions to intervene, and to evaluate the application to make a public interest consistency determination."²²

President Obama recently stated during his visit to Brussels that "we've already licensed, authorized the export of as much natural gas each day as Europe uses each day. But it's going into the open market; it's not targeted directly."²³ However, looking at the actual numbers, according to the DOE total approved FTA exports are expected to be around 38.51bcf/d, which equals around 393bcm/year. With only seven of the thirty-seven applications for Non-FTA export being approved (at the same time with occasionally lower export amounts), only around 9.3bcf/day – constituting 95bcm/year – will actually be available for the non-FTA market, to which the EU belongs. The yearly natural gas consumption in the EU is around 480bcm. To put this further into perspective, the EU imports around 125bcm of natural gas per year from Russia. Finally, considering the time factor, only one of the seven non-FTA project has received final approval and can be expected to begin exports by late 2015. Other projects – if approved – will only commence exports by 2017, at the earliest.

Since LNG will not be directly targeted for Europe but sold against other regional markets, this further compromises large-scale imports for the EU, as there is no global market for natural gas like for oil. This is due to the high associated costs regarding conversion, transport, and the needed infrastructure and connected capital costs. A recent report on a potential new way of processing natural gas into liquid products could, however, reduce LNG costs in the future and overcome the large differences in regional prices.²⁴ At the present, the IEA calculated that LNG and its associated costs are just below \$9/MMbtu for Europe and just above \$9/MMbtu for the Asian market. However, with average gas prices in Europe at \$11/MMbtu, and \$16/MMbtu in

Asia, chances are that most of the LNG will actually go to the Asian market instead of Europe.²⁵

The combination of all these factors has therefore given the negotiations over a North-Atlantic FTA new upwind, which had somewhat slowed down following the NSA revelations. A leaked document of the current negotiations showed that business groups could be empowered in the EU law-making process to effectively co-write legislation with the goal to further deregulate and liberalise the European market, stirring further criticism by some.²⁶ However, from an energy security perspective, as Obama also stated in his address: "once we have a trade agreement in place, export licenses for projects for liquefied natural gas destined to Europe would be much easier -- something that's obviously relevant in today's geopolitical climate."²⁷

DISCLAIMER

The views expressed in this Newsletter are strictly those of the authors and do not necessarily reflect those of the European Centre for Energy and Resource Security (EUCERS), its affiliates or King's College London.

²² Department of Energy, *Applications Received by DOE/FE to Export Domestically Produced LNG from the Lower 48 States (as of March 24, 2014)*, 2014:

<http://energy.gov/sites/prod/files/2014/03/f13/Summary%20of%20LNG%20Export%20Applications.pdf>

²³ Whitehouse, *Press Conference by President Obama, European Council President Van Rompuy, and European Commission President Barroso*, 2014: <http://www.whitehouse.gov/the-press-office/2014/03/26/press-conference-president-obama-european-council-president-van-rompuy-a>

²⁴ Reuters, *Experts see cheaper, easier way to turn natural gas into fuels*, 2014: <http://www.reuters.com/article/2014/03/13/us-science-naturalgas-idUSBREA2C1TL20140313>

²⁵ Birol, *World Energy Outlook 2013*, p.13

²⁶ Corporate Europe Observatory, *Leaked proposal for EU-US trade deal increases business power in decision-making*, 2013: <http://corporateeurope.org/pressreleases/2013/12/leaked-proposal-eu-us-trade-deal-increases-business-power-decision-making>

²⁷ Whitehouse, *Press Conference by President Obama, European Council President Van Rompuy, and European Commission President Barroso*, 2014: <http://www.whitehouse.gov/the-press-office/2014/03/26/press-conference-president-obama-european-council-president-van-rompuy-a>

ANNOUNCEMENT

The European Centre for Energy and Resource Security (EUCERS) cordially invites you to the first of a series of five roundtable discussions on "Changing Political and Economic Dynamics of Global Energy Flows" co-hosted by the Institute for Strategic Dialogue (ISD) and the Konrad Adenauer Foundation (KAS) in London

Ukraine - Crimea:

Is Shale Gas from the U.S. an Alternative?

30 April 2014, 14:00 - 16:00, with a reception following ♦
River Room, second floor ♦ King's College London ♦ Strand
Campus ♦ London WC2R 2LS

Confirmed speakers for introductory statements include:

Eric Mamer, Deputy Head of Cabinet, DG Energy, European Commission

Dr Frank Umbach, Associate Director, EUCERS King's College London

Henning Gloystein, Senior Correspondent, Head of European Power, Gas & Coal, Reuters News

Dr Petra Dolata, Research Director, EUCERS King's College London

Discussion

The workshop is followed by a reception

In order to attend the event please RSVP to carola.gegenbauer@kcl.ac.uk or call 020 7848 1912

The workshop will be recorded and published on our YouTube channel in due time.

EUCERS ON THE ROAD

Our team represents EUCERS at various conferences and events all over the world. This section gives a regular update and overview of conferences and interview contributions by EUCERS Director Professor Dr Friedbert Pflüger, Associate Director Dr Frank Umbach and Research Director Dr Petra Dolata.

24.-25.04.2014 Friedbert moderated the 29+1 meeting Bucharest, Romania

16.-17.04.2014 Washington DC, USA	Friedbert spoke on "Global trends of the energy industry and their implications for European and US markets" at the Trans-Atlantic Energy Summit, presented by AEEC and LeClairRyan
09.-11.04.2014 Lech, Austria	Friedbert presented at the Lech Energy Forum on "The Current Status and Impact of US LNG exports"
08.04.2014 Hanover, Germany	At the Hanover Trade Fair Alstom organised a discussion on the current status and impact of the US and LNG exports, where Friedbert spoke on "Conventional energy generation - demand, innovations, European development".
21.03.2014 Berlin, Germany	Friedbert spoke at the Weimarer Dreieck meeting on the topic of "Innovation – a driving force for Europe's competitiveness?"
18.03.2014 Berlin, Germany	Friedbert welcomed participants and moderated the Atlantik-Brücke meeting with IHS Vice-President and Pulitzer-Prize winner David Yergin on the topic of "Germany in a New World".
12.03.2014 Berlin, Germany	Friedbert spoke on "Towards sustainability in the Energy sector" at the Germany Business Forum organised by Ghorfa the Arab-German Centre of Commerce and Industry

PUBLICATIONS

Prof Dr Friedbert Pflüger and Dr Frank Umbach share with us their most recent publications and interviews:

Frank gave an Interview with Michael Gassmann, Daniel Wetzel and Eduard Steiner for the German newspaper "Die Welt am Sonntag", titled "Putins Einheizer" on 27 April, 2014.

(<http://www.welt.de/print/wams/wirtschaft/article127344480/Putins-Einheizer.html>)

Frank published an article at Euronews-CommentVisions called "How can Europe and the World Learn from the Development of Shale Gas in the US?" on 17 April, 2014. (<http://www.commentvisions.com/discussion/9302/how-can-europe-and-the-world-learn-from-the-development-of-shale-gas-in-the-us-#comment18480>)

Frank wrote on "Germany Takes Leadership Role in Ukraine Crisis", published at the Geopolitical Information Service (GIS - www.geopolitical-info.com), on 10 April, 2014.

Frank wrote an article with the Geopolitical Information Service on the topic of "Crimea May be Stepping Stone to Russia's Grand Plan" (GIS - www.geopolitical-info.com), on 4 April 2014.

Friedbert gave an interview on Russia Today (TV) regarding possible alternatives to Russian gas in Europe, on 1 April, 2014.

Frank talked about "Geopolitics Could Make Nabucco Sing Again" with Annemarie Botzki from Interfax-Energy Policy Weekly, on 27 March, 2014.

SOCIAL MEDIA

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If you have found our Newsletter interesting, wish to hear more about our activities, or, indeed, contribute with ideas or essays, please contact Carola Gegenbauer, Operations Coordinator EUCERS on carola.gegenbauer@kcl.ac.uk or call 020 7848 1912.

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