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Gas Geo-economics in Europe: Using Strategic Investment

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Europe's dependency on Russian gas

Russian gas in total gas supply

Country	Suppy from Russia (in ..	Total (in TWhs)	Dependency Rate
Austria	42.2	83.5	50.54%
Bulgaria	24.0	27.5	87.27%
Croatia	0.0	26.1	0.00%
Cyprus	0.0	0.0	0.00%
Czech Rep.	51.6	77.4	66.67%
Denmark	0.0	31.1	0.00%
Estonia	5.5	5.5	100.00%
France	62.3	421.3	14.79%
Germany	402.9	824.6	48.86%
Greece	18.4	31.7	58.04%
Hungary	101.4	92.1	110.10%
Ireland	0.0	47.9	0.00%
Italy	255.4	655.2	38.98%
Latvia	13.4	13.4	100.00%
Lithuania	26.4	26.9	98.14%
Malta	0.0	0.0	0.00%
Netherlands	32.0	375.6	8.52%
Poland	95.1	172.8	55.03%
Portugal	0.0	45.3	0.00%
Romania	9.5	127.6	7.45%
Slovakia	46.9	46.7	100.43%
Slovenia	4.8	6.8	70.59%
Spain	0.0	301.4	0.00%
Sweden	0.0	9.7	0.00%
UK	0.0	773.1	0.00%

Geoeconomic Approach: Definition and Goals

- Geoeconomics: using **"economic instruments to produce beneficial geopolitical results"** (Blackwill and Harris, 2016)

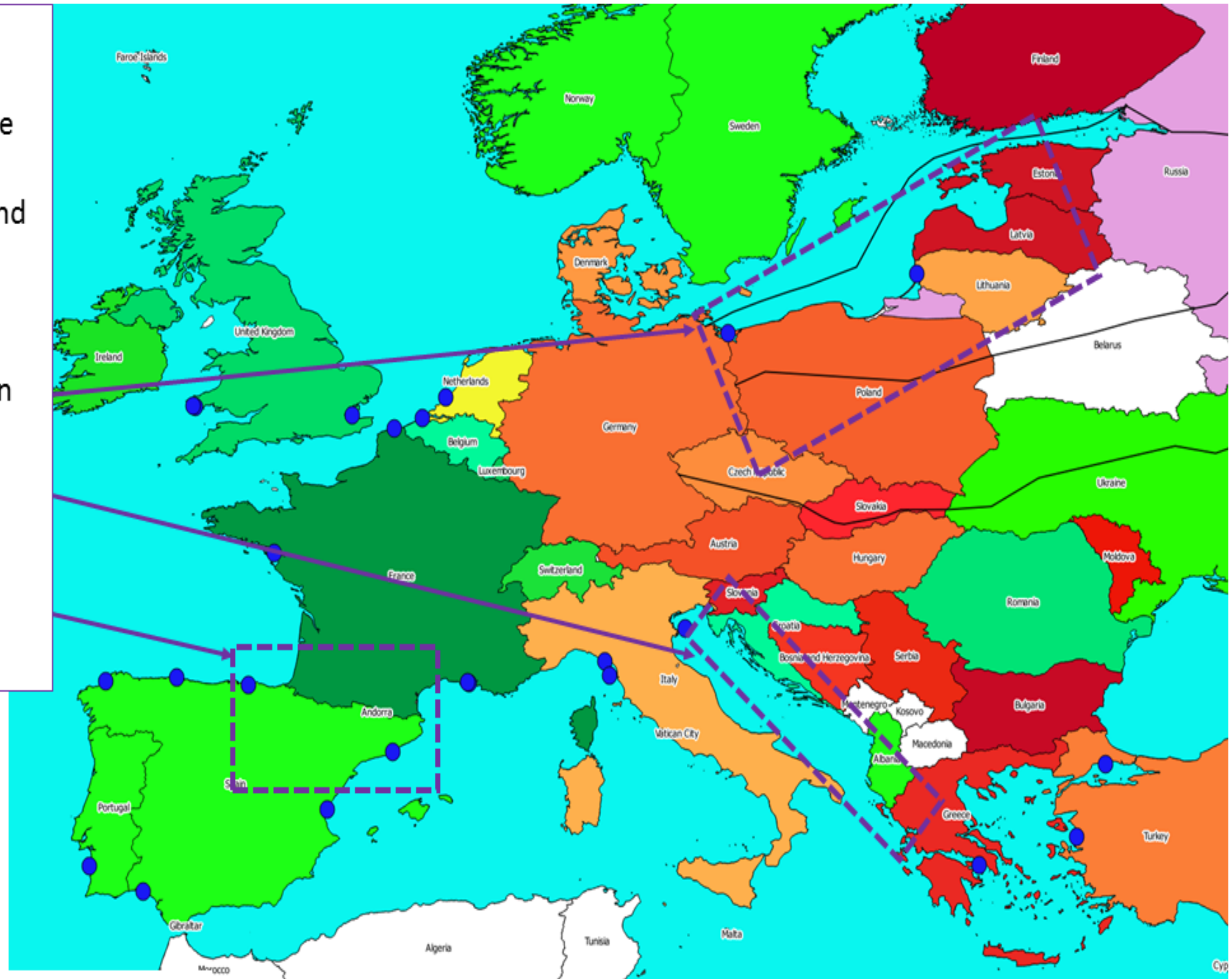
- **U.S.-funded investment** in natural gas infrastructure to **bolster gas supply** and national **security** across Europe.

- Addresses two core problems:
  - Why would a private commercial entity pay for gas infrastructure intended to deal with broader national—and Continental-level—security concerns?
  - How can policymakers potentially incentivize national level decision makers and monopoly gas distribution service providers in Europe to facilitate more rapid gas market liberalization?

Priority Zone 1
Boosting Baltic Sea LNG import capacity and enhancing pipeline connectivity, including north/south between Poland and neighbors

Priority Zone 2
Improving connectivity between Spain and rest of Europe

Priority Zone 3
Boosting Adriatic Sea LNG capacity and local connectivity into the Balkans and Greece



Dependence on Russian gas

Low *High*

Blue dots represent existing LNG terminals

Geoeconomic Approach: Objectives

- Diversify supply sources
- Foster liberalization of gas markets in Europe
- Make Russia a **"normal" commodity supplier** that is less able to selectively employ gas supplies as a **coercive instrument** against EU and NATO partners and affiliates

Current U.S. Engagement

- Military presence
- Sanctions
- Promotion of liberalization and diversification:
  - State Dept. Bureau of Energy Resources – promoting "market-based" solutions
  - Funding feasibility studies of new supply routes (i.e. nearly $1 million to Romania for construction of the Romanian portion of the Bulgaria-Romania-Hungary-Austria Connector and the Black Sea-Shore- Podisor Connector)

US-funded Investment: Preconditions

- Capital flow tied to liberalization of natural gas market

- Investments "molecule indifferent"

- Projects must seek to be connected with pipeline networks capable of enabling transnational movement of gas.

Strategic Investment: Implementation

- Investment types: "forgivable debt," direct financing, "assured payback," or preferential finance loans.
- Implementation metrics:
  - lifting price controls
  - physical unbundling of gas production, storage, and transmission infrastructure;
  - the emergence of verified, market-based trading of pipeline capacity;
  - verified, non-discriminatory third-party access by non-Russian controlled entities to gas pipelines in the country;
  - trading turnover rates at virtual transfer points or gas hubs associated with the host country's gas pipeline network

Expected Effects

- Unorthodox proposal
- Short-term engagement with long-term benefits
- Bolsters European resilience
- A new way to deal with increasingly aggrieved and revanchist Russia
- Economic consequences to Russia without collateral damage to EU economy that can result from economic sanctions

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