# Oxford Energy Comment

## March 2008

# Security of European Gas Supplies – a survey of gas industry opinion from the FLAME Conference, Amsterdam, March 4, 2008

**Jonathan Stern**

Votes were taken on a number of questions on security of gas supply at a polling session at the Flame Conference[1] on March 4, 2008 the day after Gazprom had reduced Russian supplies to Ukraine by 25% and had announced that supplies would be reduced by a further 25% from 20.00hrs that evening. The conference had around 700 registered delegates and at the time of voting on these questions, some 260 delegates had been issued with hand-held voting devices; it is not possible to say how many delegates actually voted and voting is anonymous. An approximate breakdown of delegate nationality is shown in Table 1. Voting numbers and nationality of delegates from previous years are not known.

**Table 1**

Approximate Nationality Composition of all 2008 Delegates by Location of Institution* (%)

| | |
|---|---|
| UK | 25% |
| Netherlands | 18% |
| Germany | 9% |
| Southern Europe | 5% |
| New Member States/Accession Countries | 5% |
| Europeans other than nationalities listed above | 32% |
| Russians | 1% |
| Others | 5% |

* For example if the delegate's company is based in the UK, the delegate is classified as "UK" irrespective of his or her actual nationality. The data are for all delegates registered at the Conference, not those voting.

[1] FLAME is possibly the largest conference on European gas-related issues and is held annually in Amsterdam by the company ICBI.

## Questions and Results

### Q1. How worried are you about a European gas business being increasingly dependent on imported gas?

| | 2004 | 2005 | 2008 |
|---|---|---|---|
| NOT AT ALL | 47 | 16 | 35 |
| A LITTLE WORRRIED | 27 | 26 | 26 |
| WORRIED | 19 | 32 | 30 |
| VERY WORRIED | 7 | 26 | 9 |

This question had been asked in previous years and the responses for 2004 and 2005 are shown with those of the current year. The results show the 2008 delegates were significantly less worried than in 2005 but somewhat more worried than in 2004 when 53% of delegates expressed various degrees of concern compared with 66% in 2008.

### Q2. Which region do you see as providing the most reliable supply of gas into Europe in the next five years?

| | 2007* | 2008 | |
|---|---|---|---|
| | | 1st Vote** | 2nd Vote*** |
| RUSSIA | 41.5 | 46.7 | 59.2 |
| CASPIAN AND THE MIDDLE EAST | 22.0 | 16.7 | 12.6 |
| NORTH AFRICA | 27.7 | 13.3 | 8.7 |
| LNG | | 23.3 | 19.4 |
| TURKEY AND THE NEAR EAST | 8.8 | | |

*in 2007 the categories were: Russia and the Caspian, Middle East, North Africa, Turkey and the Near East
**Vote taken at 9am – 160 voting devices issued
***Vote taken at 2.00pm – 260 voting devices issued

This question was asked twice during the 2008 conference, the first vote was taken at the beginning of the day and the second in the afternoon when more voting devices had been issued (Questions 1 and 3 were only asked in the afternoon).[2] Somewhat surprisingly, Russia was voted the most reliable supplier both times, significantly increasing its share of the vote in the larger sample to nearly 60%. Supply from Caspian and Middle East countries – the so-called "fourth corridor" - which is being encouraged by many politicians both within and outside Europe, scored poorly receiving significantly less than 20% of the vote on each occasion. Surprisingly, North Africa scored significantly worse even than the Caspian/Middle East option. Even more surprisingly, LNG supplies – widely perceived as a major diversification and security instrument against potential interruptions of pipeline gas – received the support of barely 20% of the audience.

[2] The reason Question 2 was asked again in the afternoon was that it was felt not enough devices had been issued at the time of the first vote to obtain a representative sample of opinion ie that support for Russian reliability in the first vote might have been unrepresentative.

**Q3. Are you comfortable with the level of Russian supply to European gas markets?**

| | 2006 | 2008 |
|---|---|---|
| VERY COMFORTABLE | 10 | 5 |
| COMFORTABLE | 26 | 34 |
| NEUTRAL | 20 | 34 |
| UNCOMFORTABLE | 31 | 16 |
| VERY UNCOMFORTABLE | 13 | 11 |

These answers tended to confirm the results from Question 2. 26% of delegates were uncomfortable or very uncomfortable with the level of Russian gas supplies, down from 44% in 2006, meaning that nearly three quarters were comfortable with or neutral about Russian supplies, compared with just over half when the vote was taken in the immediate aftermath of the January 2006 Russia-Ukraine crisis.

***Interpretation of the votes***

It is possible to interpret these results in a number of different ways, particularly the response to Question 2. It may be that Caspian and Middle East and North Africa scored poorly because delegates did not see those sources making a significant contribution to European markets within 5 years. The relatively low support for LNG may have been caused by delegates believing that higher prices in the US and Pacific markets would mean less availability for Europe over the next five years, rather than a judgement of the physical reliability of LNG relative to other sources.

But however one chooses to interpret the results, it is particularly interesting that an audience of European gas executives was rather less concerned about the security implications of imported gas in general, and imported Russian gas in particular, than might have been expected on a day when European supplies might have been (but in the event proved not to be) at risk from Gazprom's reduction of supply to Ukraine. Moreover, the fact that delegates voted Russia by far the most secure source of supply among the foreign supply sources stands in sharp contrast to the majority of politicians and media commentators who consistently argue the opposite view. It should also be of interest to those who believe that diversification of European gas supplies away from Russia is an essential element of future gas (and energy) security, that such a view is not necessarily supported by those with principal responsibility for purchasing Europe's future supplies.

This is not a "scientific" survey of European gas industry opinion. Nor were the 2008 delegates were a representative geographical sample of European opinion. Table 1 shows that the companies represented were heavily weighted towards "old" member states in North West Europe, rather than new member states and accession countries which could have been expected to be significantly less comfortable with Russian, and more enthusiastic about Caspian and Middle East, supplies. Likewise, a greater proportion of delegates from southern Europe might have shown stronger support for North African and LNG supplies. But even if these votes only represent the views of a limited number of "north west" European representatives, these are gas professionals from European companies responsible for taking financial risks associated with gas supplies. Their views on gas security are therefore significant and worthy of the attention of a wider audience.