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Iran and the future of European Gas Supply – the European Perspective

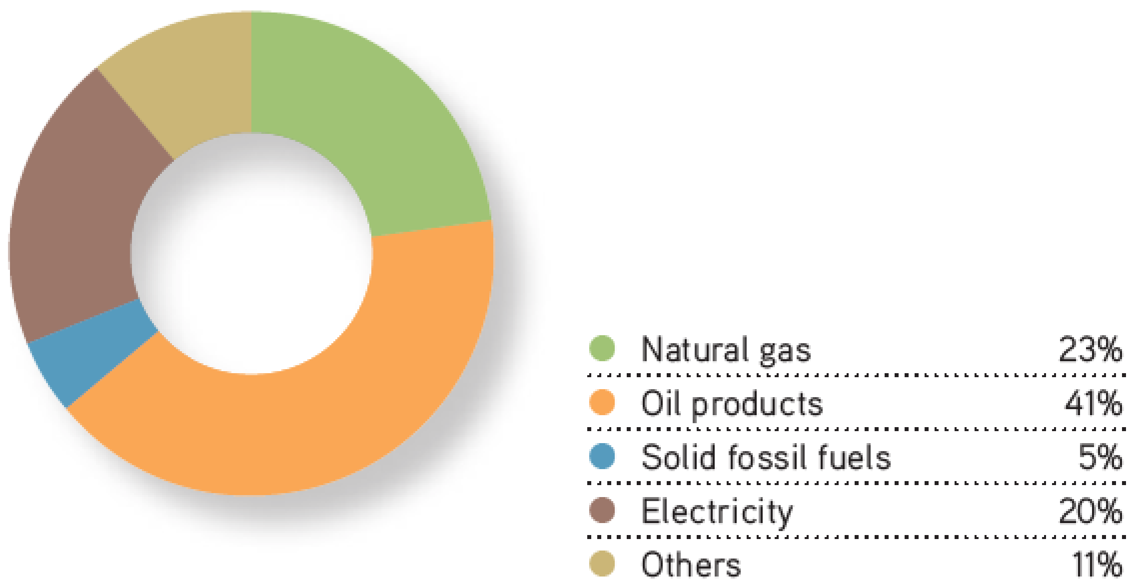
BC CARE Energy Policy Round Table
Salzburg, August 31, 2013

Executive Summary

- The EU-27 is a **net natural gas importer:** to meet its growing consumption and low production rate.
- The largest share of natural gas is currently provided by **Russia.** A dependency of over 30% is currently experienced within the EU-28. A greater need for supply diversification has been recognized in the European Union.
- Additionally Gazprom has decreased its production volumes in recent years and seeks to negotiate long-term contracts as opposed to cheaper spot-market prices.
- Deemed as the country with the worldwide largest natural gas reserves worldwide, Iran could provide interesting opportunities for **the EU's desire to diversify its energy supply** by country of origin in natural gas.
- Foreign investments in the Iranian natural gas sector can only occur through the **buy-back contractual model**, a challenge for European energy companies
- Sanctions have made natural gas trade with Iran more difficult – **but not impossible.**

Final Energy Consumption EU-27 2010

↘ FINAL ENERGY CONSUMPTION BY FUEL (EU), 2010



Source: Eurogas 2012

Largest natural gas consumers are Germany, the UK and Italy – the Netherlands and Denmark are the only net exporter

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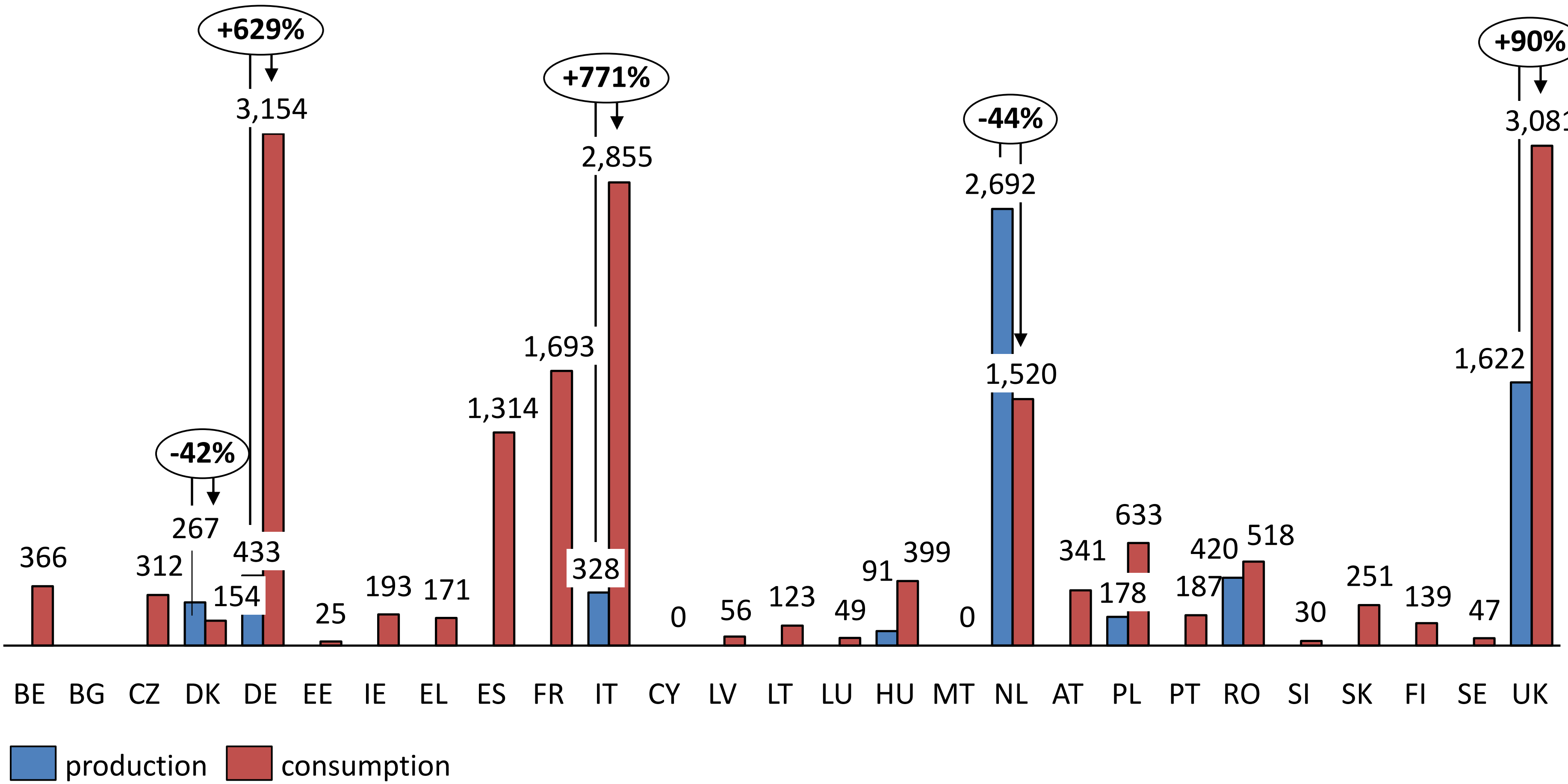
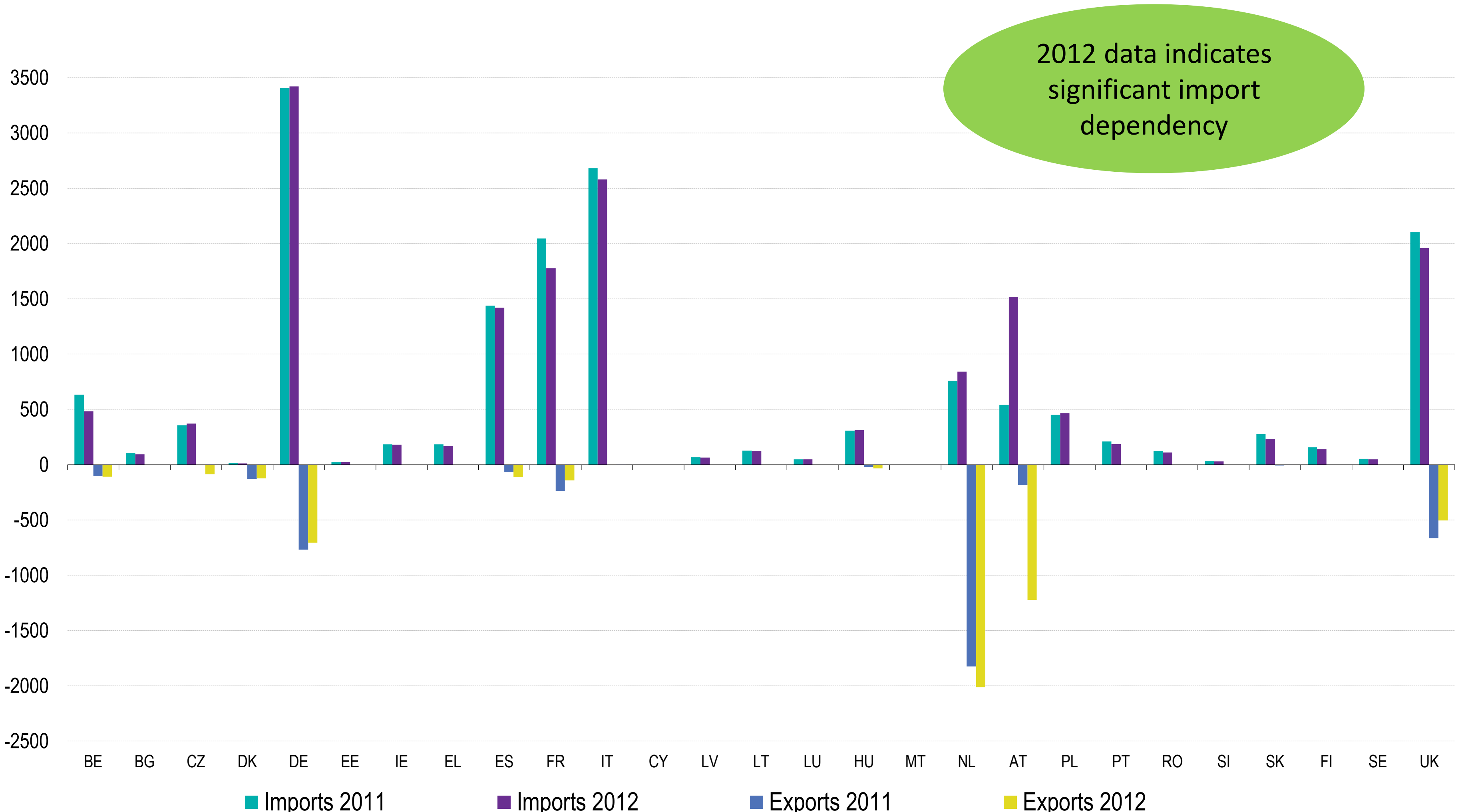
Gross inland consumption of natural gas in thousand terajoules (GCV) in the EU
In 2012



Source: Eurostat

EU-27 is a net natural gas importer

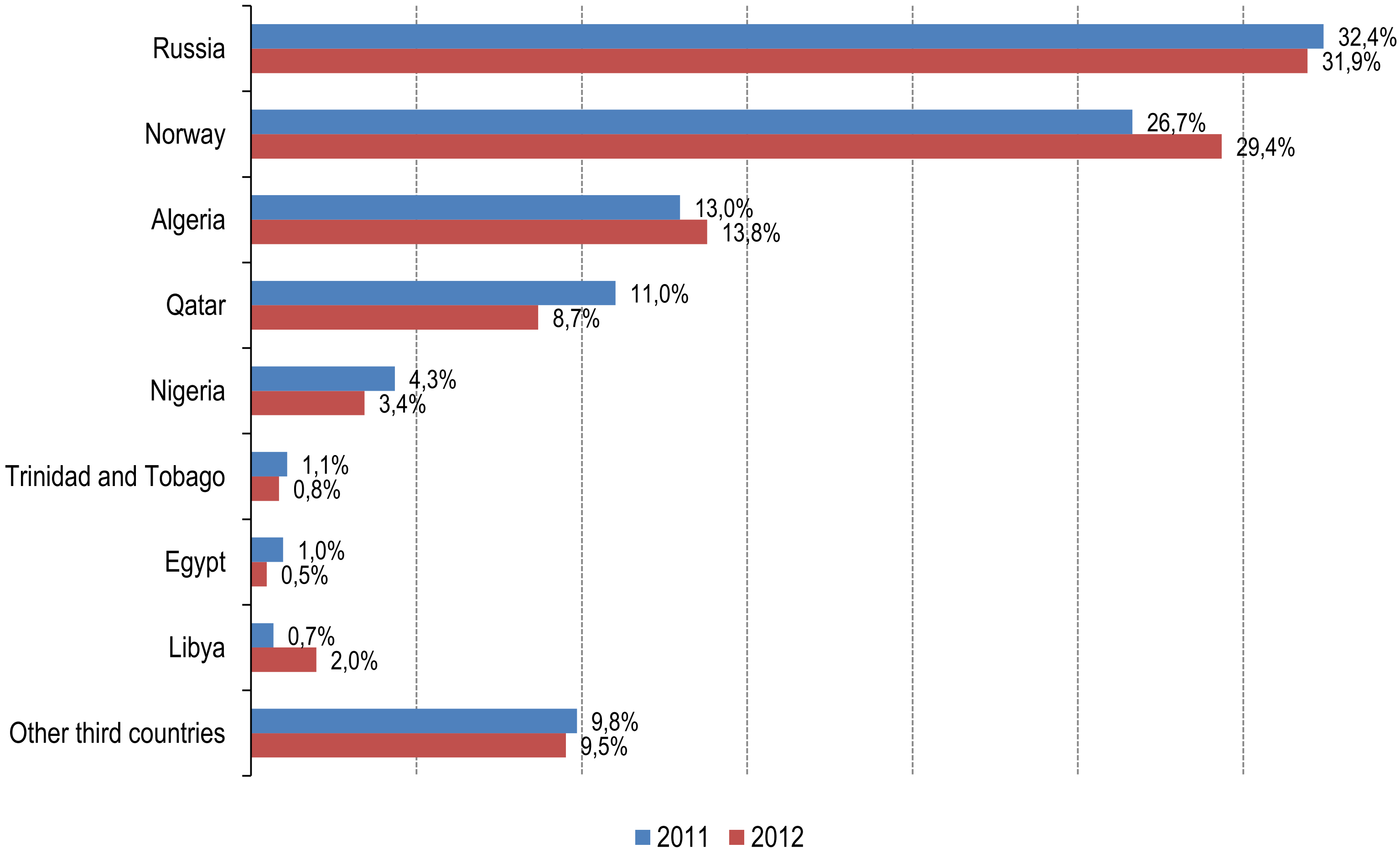
Total imports and exports of natural gas by country in the EU-27



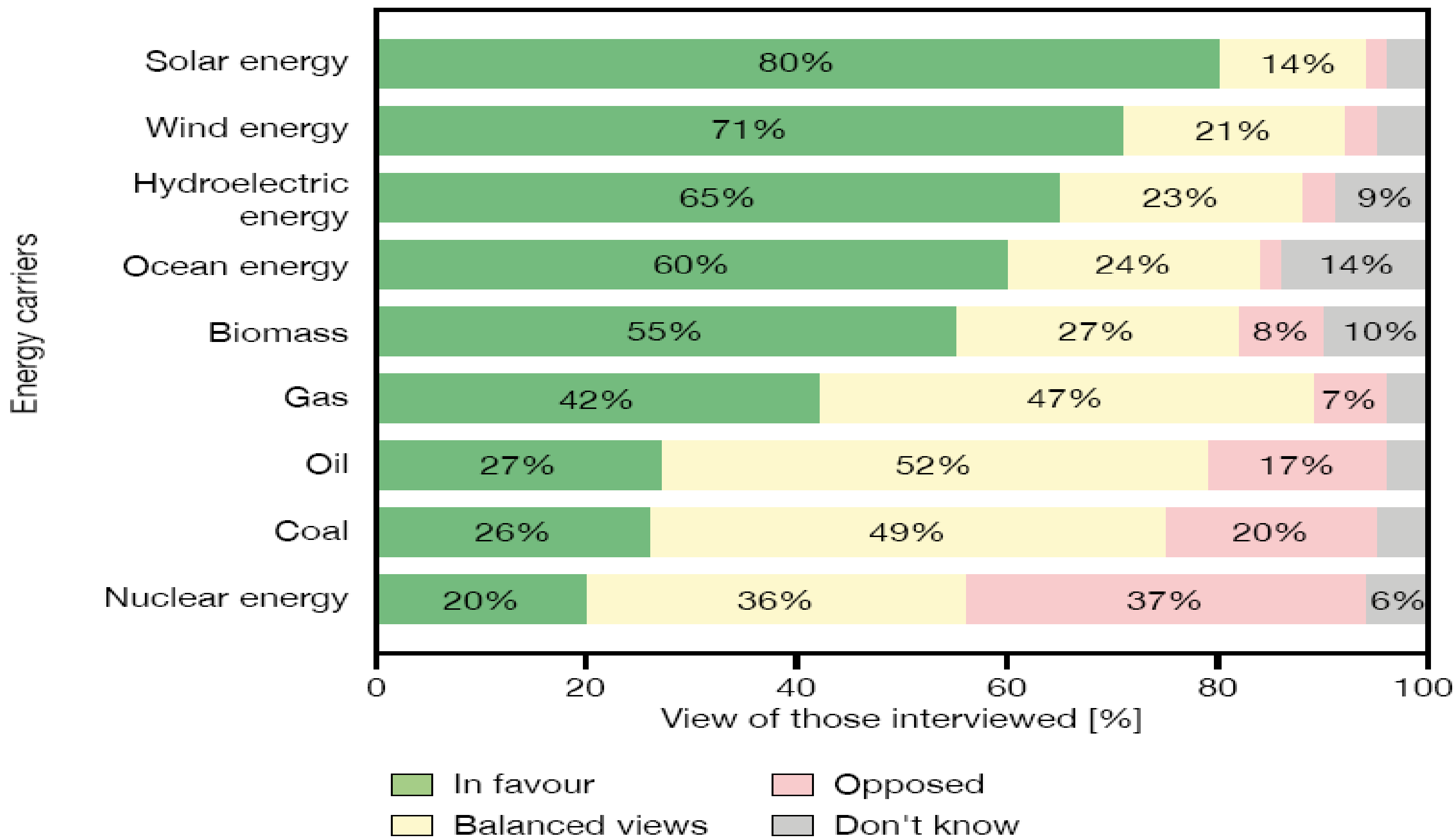
Source: Eurostat

EU-27 import dependency for natural gas remains dominant

Main origin of natural gas imports

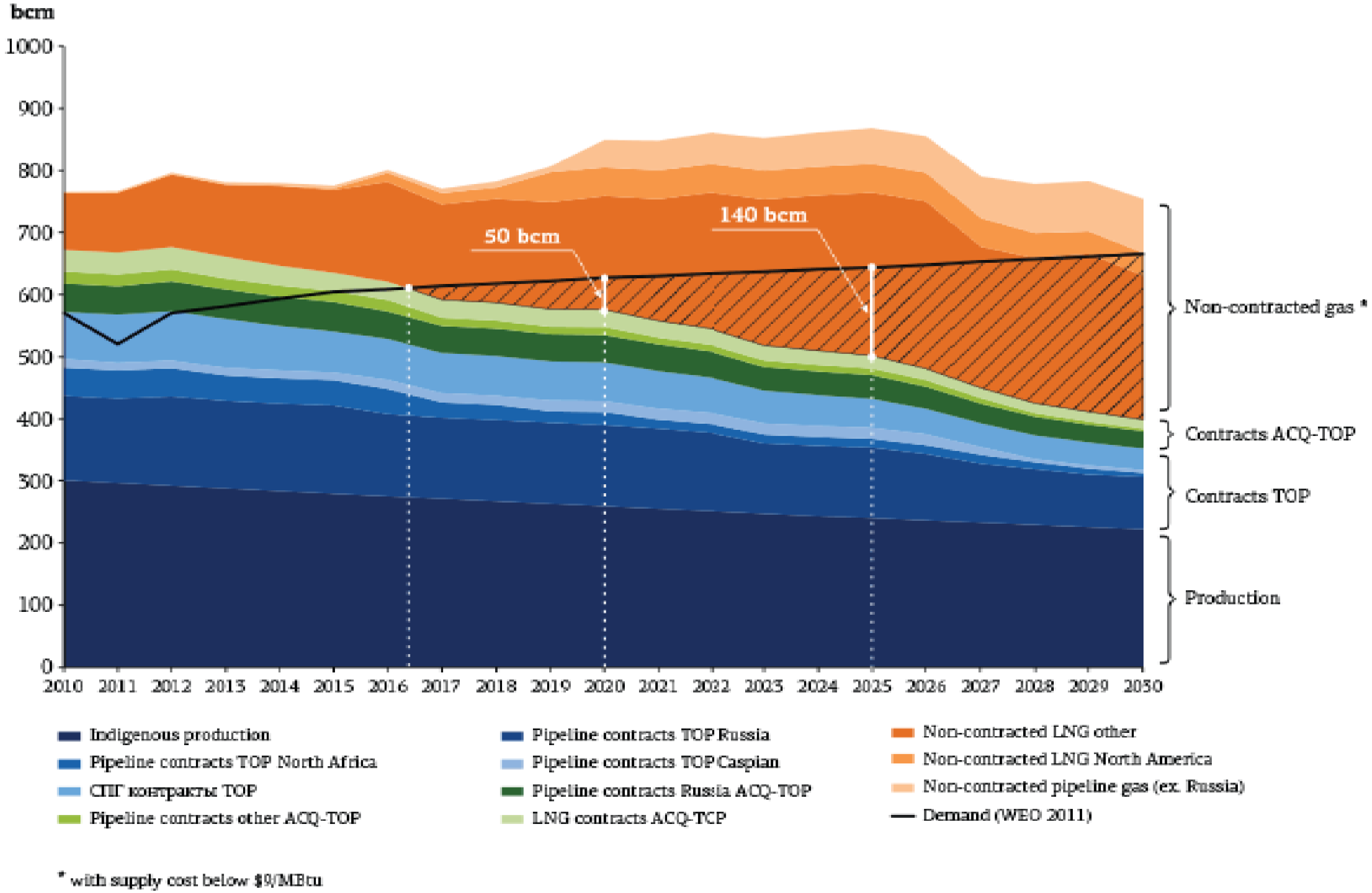


Energy acceptance in EU-25 (Eurobarometer)



Environmental Policy Research Centre, Lutz Mez

Gas Market Europe –> competition



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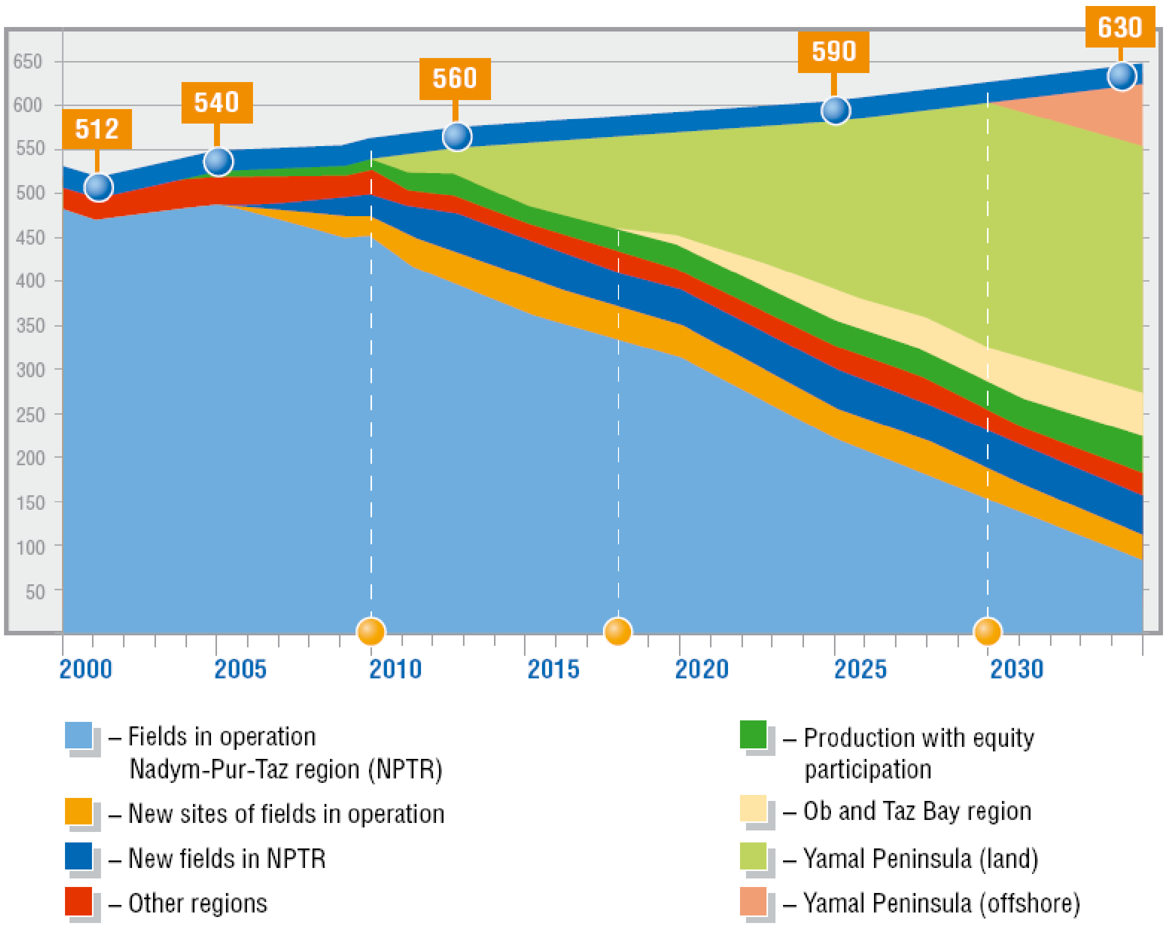
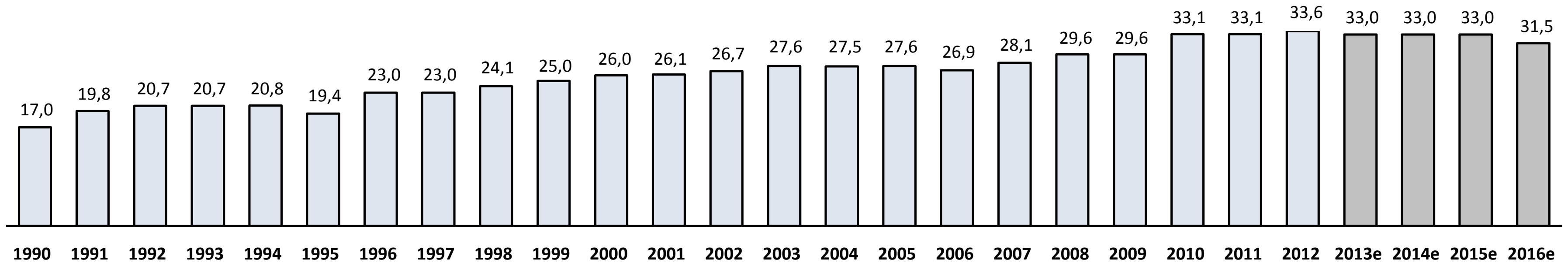
Gazprom production projections – 487 bcm in 2012 –
New alternatives may be necessary as increases remain low!



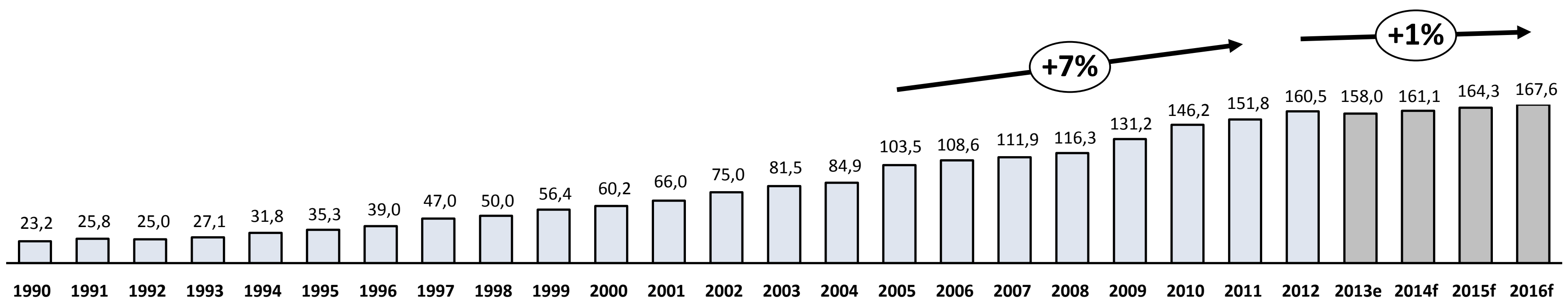
- Gazprom production in 2012 amounted to 487 bcm

Since 2005 gas production in Iran has increased on average annually by 7% – there are 33.6 tcm proven gas reserves

Proven national gas reserves in Iran[1]
In tcm



Natural gas production in Iran[1]
In bcm



Source: British Petroleum 2013
1. 2012-2015 Daten von Business Monitor

What are options to bring natural gas to Europe from Iran or the region?

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Current and potential natural gas trade from Turkmenistan to Iran – to potentially Europe

Pipelines:

Korpedzhe-Kurt Kui Pipeline
Operational since: 1997
Capacity: 8 bcm/year

Dauletabad-Sarakhs-Khanigaran Pipeline
Operational since: 2010
Capacity: 12 bcm/year

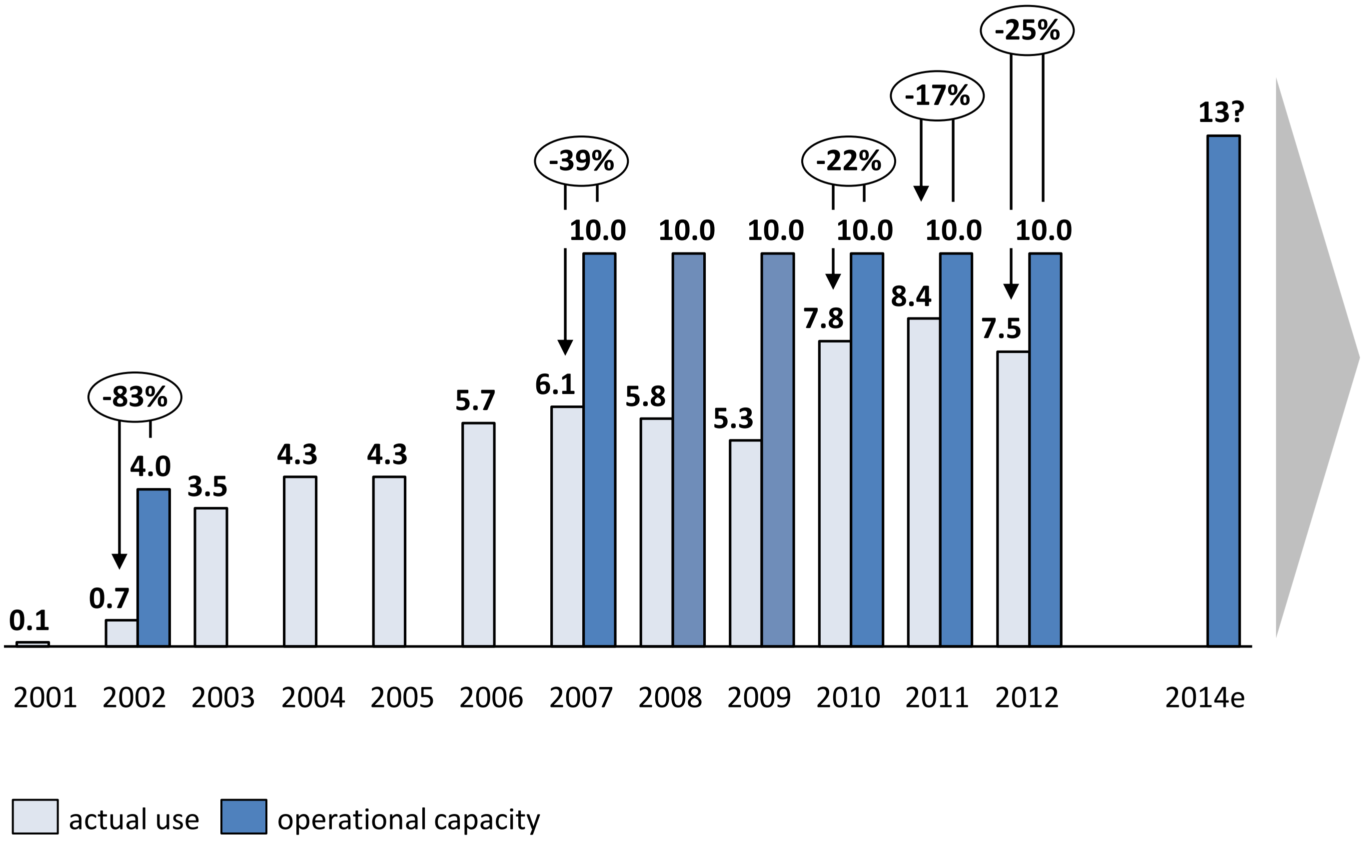
Capacities and contracted volumes to Iran (in bcm/year):

	2006	2007	2008	2009	2010	2011	2012	2013
Pipeline capacity	8	8	8	8	14	20	20	20
Contracted volumes	8	8	8	8	14	14	14	14
Unbound capacity	0	0	0	0	0	6	6	6
Exports (IEA)	6,3	6,2	7,1	5,8	8,6	13,4		
Exports (OIES[1])	6,3	6,2	7,1	7	8	8	8	8
Exports (BP)	5,8	6,1	6,5	5,8	6,5	10,2	9,0	
Free capacity	1,7-2,2	1,8-1,9	0,9-1,5	1-1,2	5,4-7,5	6,6-12	11-12	12

[1] Forecasts for 2013
Source: IEA, OIES, BP, Cedigaz

Currently, 90% of Iranian natural gas exports are destined for Turkey – energy transit to Europe?

Tabriz-Ankara Pipeline exports, 2001-2012
In bcm



Negotiations for an additional 3 bcm to Turkey:

- 2 bcm for domestic consumption and 1 bcm for European consumption

Source: OPEC 2012, BP Statistical Review 2013; Eurasia Review; Global Business;

Concluding remarks and open questions

- Europe seeks an alternative natural gas supplier to Russia that can offer:
  a) **extensive volumes and**
  b) **financially attractive natural gas supply**

- Some issues that – apart to sanctions – hinder European investments in Iran's natural gas sector, including the limited i**nvestment options are limited to buy-back models**

- Free capacities towards Europe?

- Which route options are available?

- Spot-market vs. guaranteed pricing?

Thank you for your attention!

PD Dr. Lutz Mez

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