

# G8, Russia, and Energy

**Schloss Hofen, July 14th 2006**



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# Who are these guys?

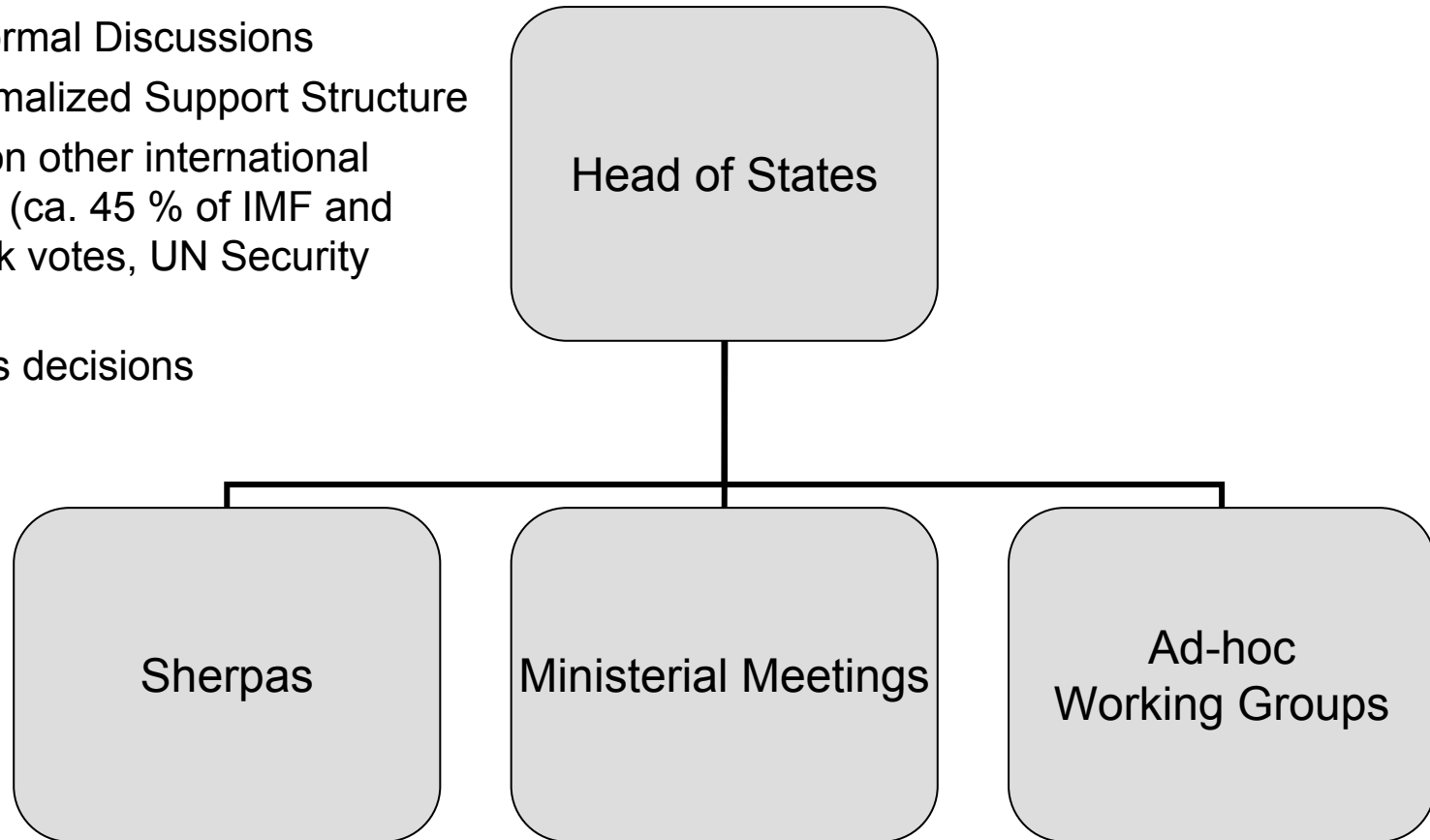
- Who will not be there in 2006?
- Where does the G8 summit take place?
- G:3,5,7,8,10,20,22,33,77?

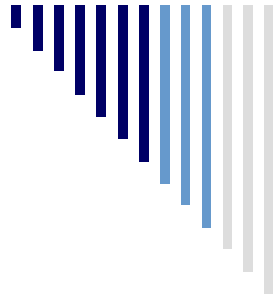




# How the G8 works

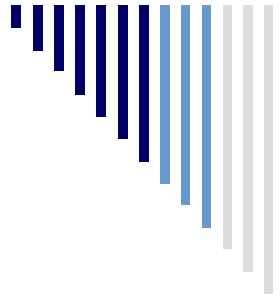
- Allows Informal Discussions
- Highly Formalized Support Structure
- Influence on other international institutions (ca. 45 % of IMF and World Bank votes, UN Security Council)
- Unanimous decisions





# History

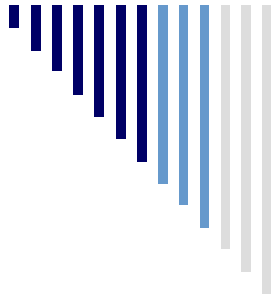
- 1973: First Oil Crisis
- 1974: Library Group (US, UK, Germany, France)
- 1975: First G7 Summit in Rambouillet
- 1979: Second Oil Crisis
- 1980's: Macro-Economic Policies
- 1991: Disintegration of Soviet Union
- 1998: Russia, 'Summit of the Eight'



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# Why Russia?

- Political Reason
- Economic Reasons
- Security Reasons



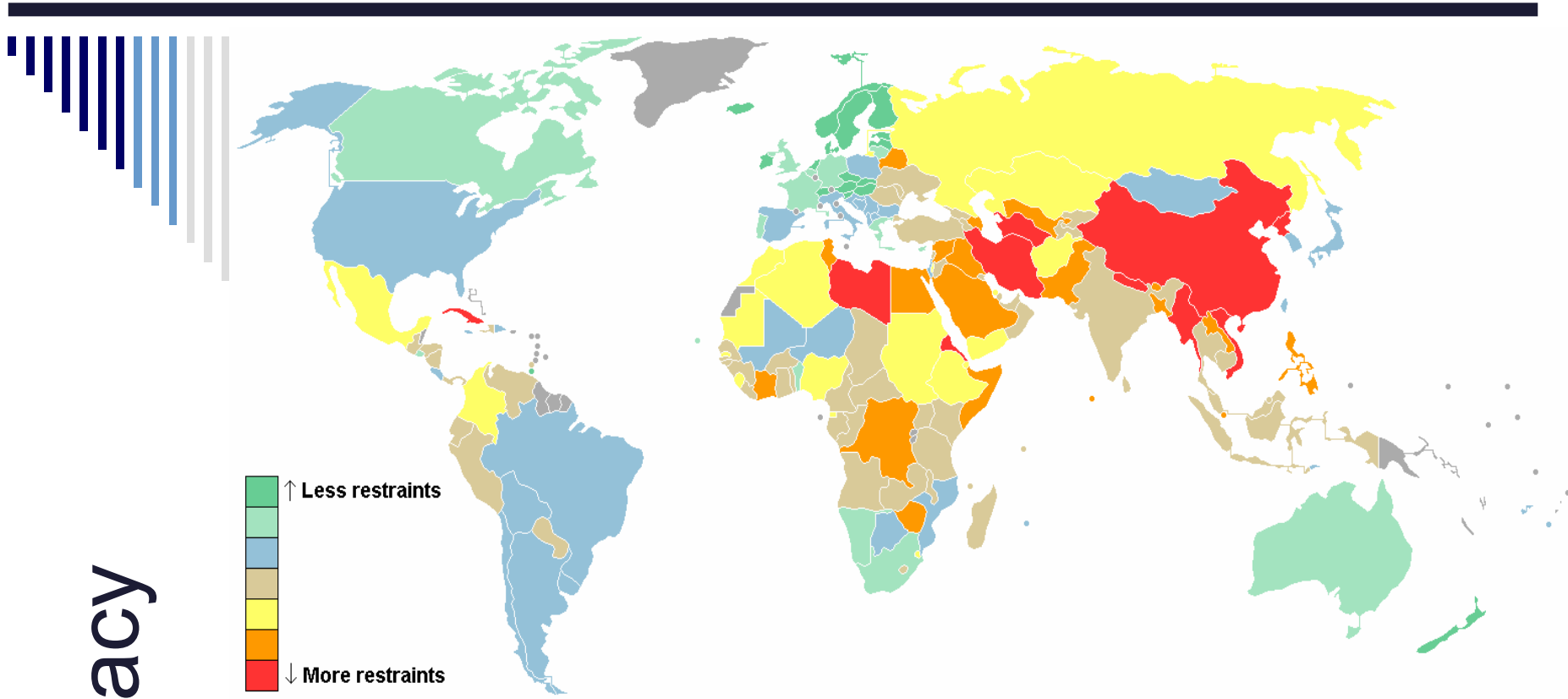
# Economy

## GDP/GDP per Head 2005, USD(PPP)

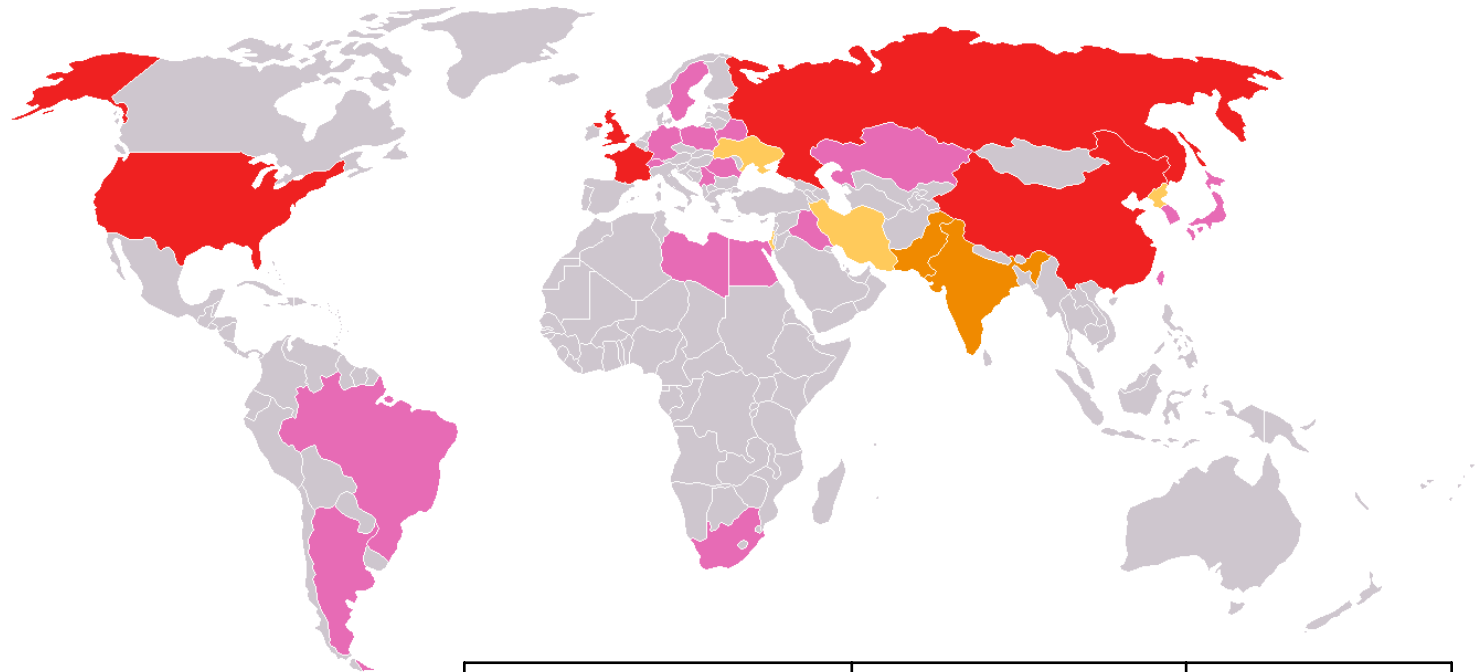
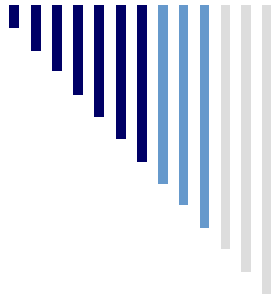
|    |  |            |
|----|--|------------|
| 1  | <a href="#">United States</a>              | 12,485,725 |
| 2  | <a href="#">Japan</a>                      | 4,571,314  |
| 3  | <a href="#">Germany</a>                    | 2,797,343  |
| 4  | <a href="#">People's Republic of China</a> | 2,224,811  |
| 5  | <a href="#">United Kingdom</a>             | 2,201,473  |
| 6  | <a href="#">France</a>                     | 2,105,864  |
| 7  | <a href="#">Italy</a>                      | 1,766,160  |
| 8  | <a href="#">Canada</a>                     | 1,130,208  |
| 9  | <a href="#">Spain</a>                      | 1,126,565  |
| 10 | <a href="#">South Korea</a>                | 793,070    |
| 11 | <a href="#">Brazil</a>                     | 792,683    |
| 12 | <a href="#">India</a>                      | 775,410    |
| 13 | <a href="#">Mexico</a>                     | 768,437    |
| 14 | <a href="#">Russia</a>                     | 766,180    |
| 15 | <a href="#">Australia</a>                  | 707,992    |
| 16 | <a href="#">Netherlands</a>                | 625,271    |
| 17 | <a href="#">Belgium</a>                    | 372,091    |
| 18 | <a href="#">Switzerland</a>                | 367,513    |
| 19 | <a href="#">Turkey</a>                     | 362,461    |
| 20 | <a href="#">Sweden</a>                     | 358,819    |

|    |  |        |
|----|--|--------|
| 1  | <a href="#">Luxembourg</a>                 | 69,800 |
| 2  | <a href="#">Norway</a>                     | 42,364 |
| 3  | <a href="#">United States</a>              | 41,399 |
| 4  | <a href="#">Ireland</a>                    | 40,610 |
| 5  | <a href="#">Iceland</a>                    | 35,586 |
| 6  | <a href="#">Denmark</a>                    | 34,737 |
| 7  | <a href="#">Canada</a>                     | 34,273 |
| 8  | <a href="#">Austria</a>                    | 33,615 |
| 9  | <a href="#">Hong Kong</a>                  | 33,411 |
| 10 | <a href="#">Switzerland</a>                | 32,571 |
| 16 | <a href="#">Japan</a>                      | 30,615 |
| 17 | <a href="#">Germany</a>                    | 30,579 |
| 18 | <a href="#">United Kingdom</a>             | 30,470 |
| 19 | <a href="#">Sweden</a>                     | 29,898 |
| 20 | <a href="#">France</a>                     | 29,316 |
| 21 | <a href="#">Italy</a>                      | 28,760 |
| 23 | <a href="#">United Arab Emirates</a>       | 27,957 |
| 24 | <a href="#">Republic of China (Taiwan)</a> | 27,572 |
| 25 | <a href="#">Spain</a>                      | 26,320 |
| 62 | <a href="#">Russia</a>                     | 11,041 |

# Democracy



- Strong Presidential Power
- Weak Parliament
- Biased Judiciary
- Human Rights Issues
- Media System
- Nationalism
- Intolerance against Minorities
- Increasing Sympathy towards Soviet era
- Influence of Oligarchs

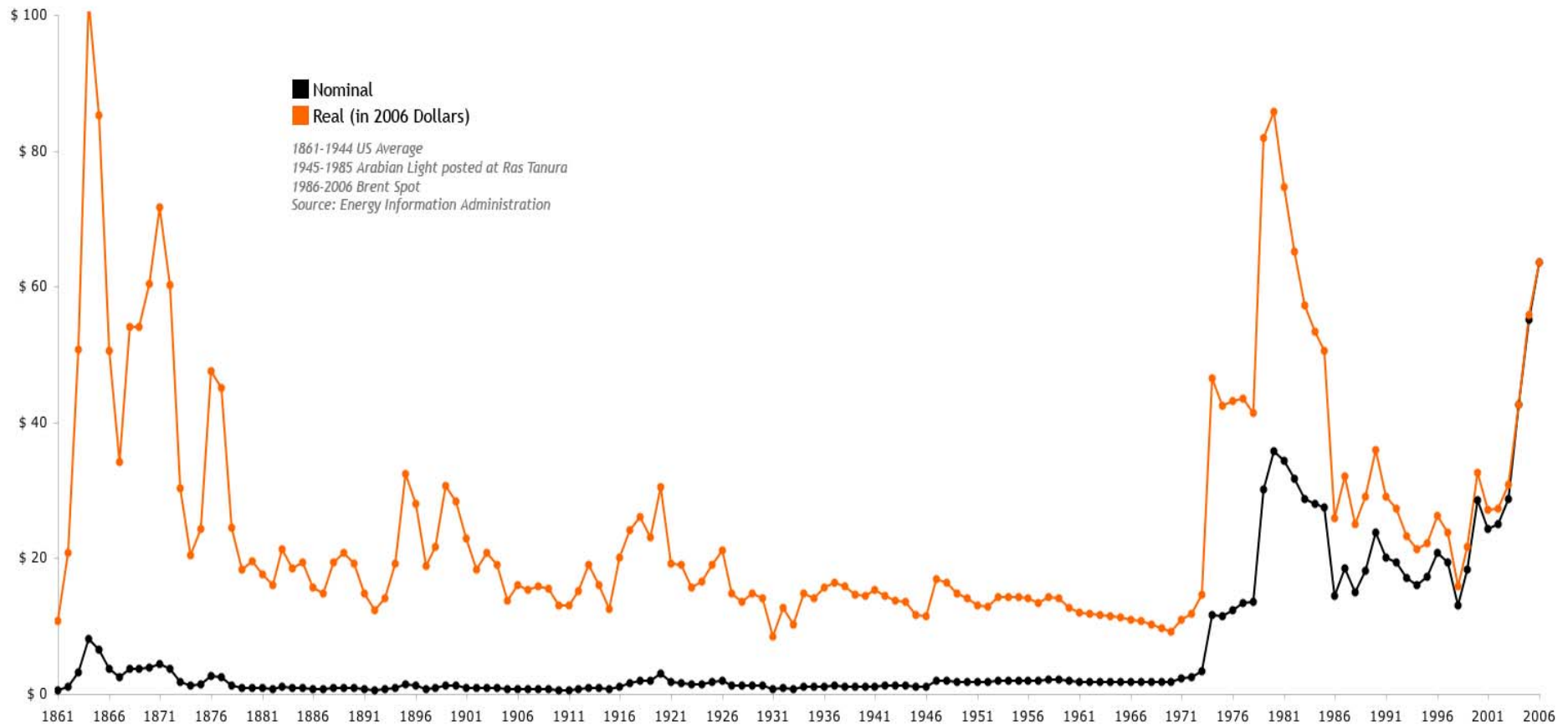


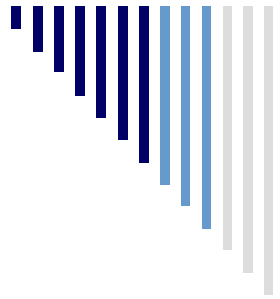
# Security

- Five "nuclear weapons states" from the NPT (USA, Russia, UK, France, PRC)
- Other known nuclear powers (India, Pakistan)
- States suspected of having possession of, or suspected of being in the process of developing, nuclear weapons (Israel, North Korea, Iran, Ukraine)
- States which at one point had nuclear weapons and/or nuclear weapons research programs

| Country   | Warheads active/total* | Year of first test |
|---|------------------------|--------------------|
| <a href="#"><u>United States</u></a>              | 5,735/9,960            | 1945               |
| <a href="#"><u>Russia</u></a>                     | 5,830/16,000           | 1949               |
| <a href="#"><u>United Kingdom</u></a>             | 200                    | 1952               |
| <a href="#"><u>France</u></a>                     | 350                    | 1960               |
| <a href="#"><u>People's Republic of China</u></a> | 130                    | 1964               |
| <a href="#"><u>India</u></a>                      | 75-115                 | 1974               |
| <a href="#"><u>Pakistan</u></a>                   | 65-90                  | 1998               |
| <a href="#"><u>North Korea</u></a>                | 0-10                   | none               |

# Gas and Oil Price





# Natural Gas and Oil Market

## □ Oil

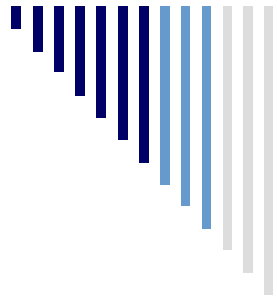
- Three Types of Markets
  - Contracts
  - Spot
  - Derivatives
- Low costs of retrieval
- Needs refinement
- Easy to transport
- High Pollution

## □ Volatile, Instable Markets

## □ Natural Gas

- Two Types of Markets
  - Contracts through Pipelines
  - Spot Prices through LNG
- High costs of retrieval and liquidation
- Needs almost no refinement
- Low transport costs but high investment costs
- Low Pollution

## □ Rigid, Stable Markets



# World Gas Market

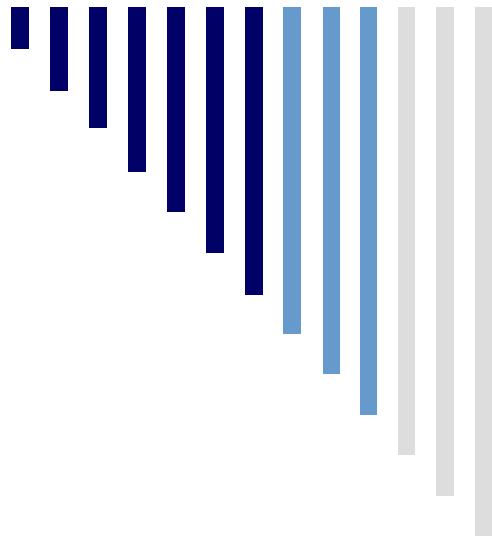
| Reserves     | Bcm    | % of world | Production   | Bcm   | % of world | Consumption | Bcm   | % of world |
|--------------|--------|------------|--------------|-------|------------|-------------|-------|------------|
| Russia       | 47.570 | 30.5       | Russia       | 554.9 | 22.0       | USA         | 667.5 | 26.3       |
| Iran         | 23.000 | 14.8       | USA          | 547.7 | 21.7       | Russia      | 388.4 | 15.3       |
| Qatar        | 14.400 | 9.2        | Canada       | 183.5 | 7.3        | UK          | 94.5  | 3.7        |
| Saudi Arabia | 6360   | 4.1        | UK           | 103.1 | 4.1        | Germany     | 82.6  | 3.3        |
| UAE          | 6010   | 3.9        | Algeria      | 80.4  | 3.2        | Canada      | 80.7  | 3.2        |
| USA          | 5190   | 3.3        | Indonesia    | 70.6  | 2.8        | Japan       | 77.4  | 3.1        |
| Algeria      | 4520   | 2.9        | Norway       | 65.4  | 2.6        | Ukraine     | 69.8  | 2.8        |
| Venezuela    | 4190   | 2.7        | Iran         | 64.5  | 2.6        | Iran        | 67.9  | 2.7        |
| Nigeria      | 3510   | 2.3        | Netherlands  | 59.9  | 2.4        | Italy       | 63.6  | 2.5        |
| Iraq         | 3110   | 2.0        | Saudi Arabia | 56.4  | 2.2        | Uzbekistan  | 52.4  | 2.1        |



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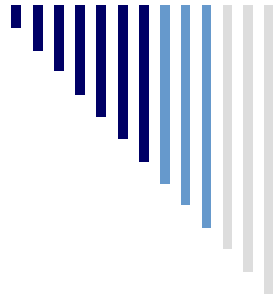
# Hot energy topics on the G8

- Siberian Gas Reserves Decreasing
  - Need for Finding new supplies → Central Asia
- Ownership of Central Asian Gas Reserves
  - Fear of weak-state spillover
- Planned and Existing Pipelines
  - Pipeline through Baltic Sea
  - Pipeline from Caspian Sea to Black Sea
  - Pipeline from Northern Iran to Indian Ocean
- Market Power of Gazprom
  - Horizontal and Vertical Integration
- European Gas/Energy Market
  - Alternative Energy Sources
  - Competition Issues

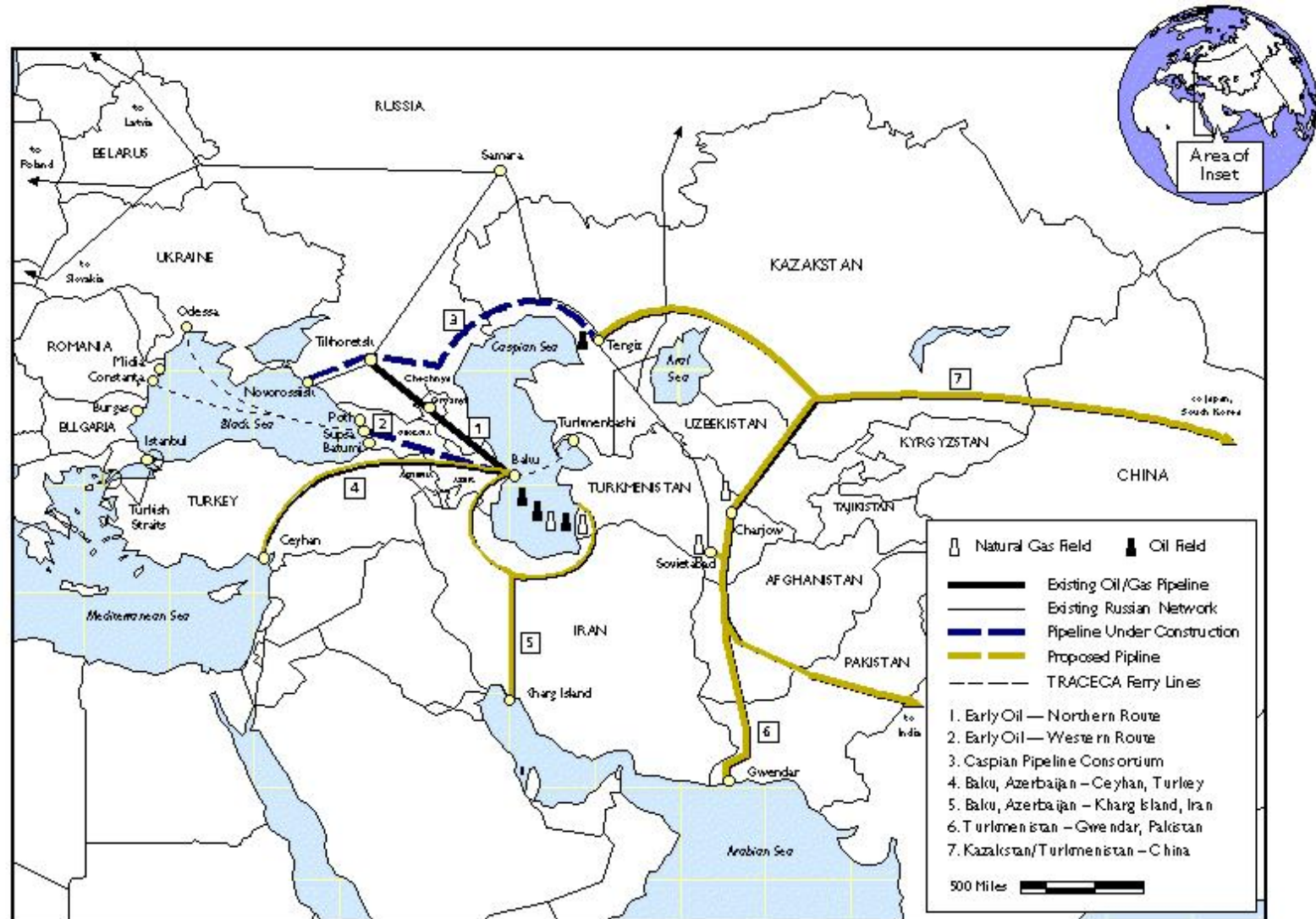


Thanks!





# Back up Slides



**Oil and Natural Gas Export Infrastructure in Central Asia and the Caucasus**

Sources: U.S. Department of State.