

Introductory remarks for the panel “Latest plans and prospects for pipelines”, Session “Future scenarios for oil and gas in Russia and CIS”

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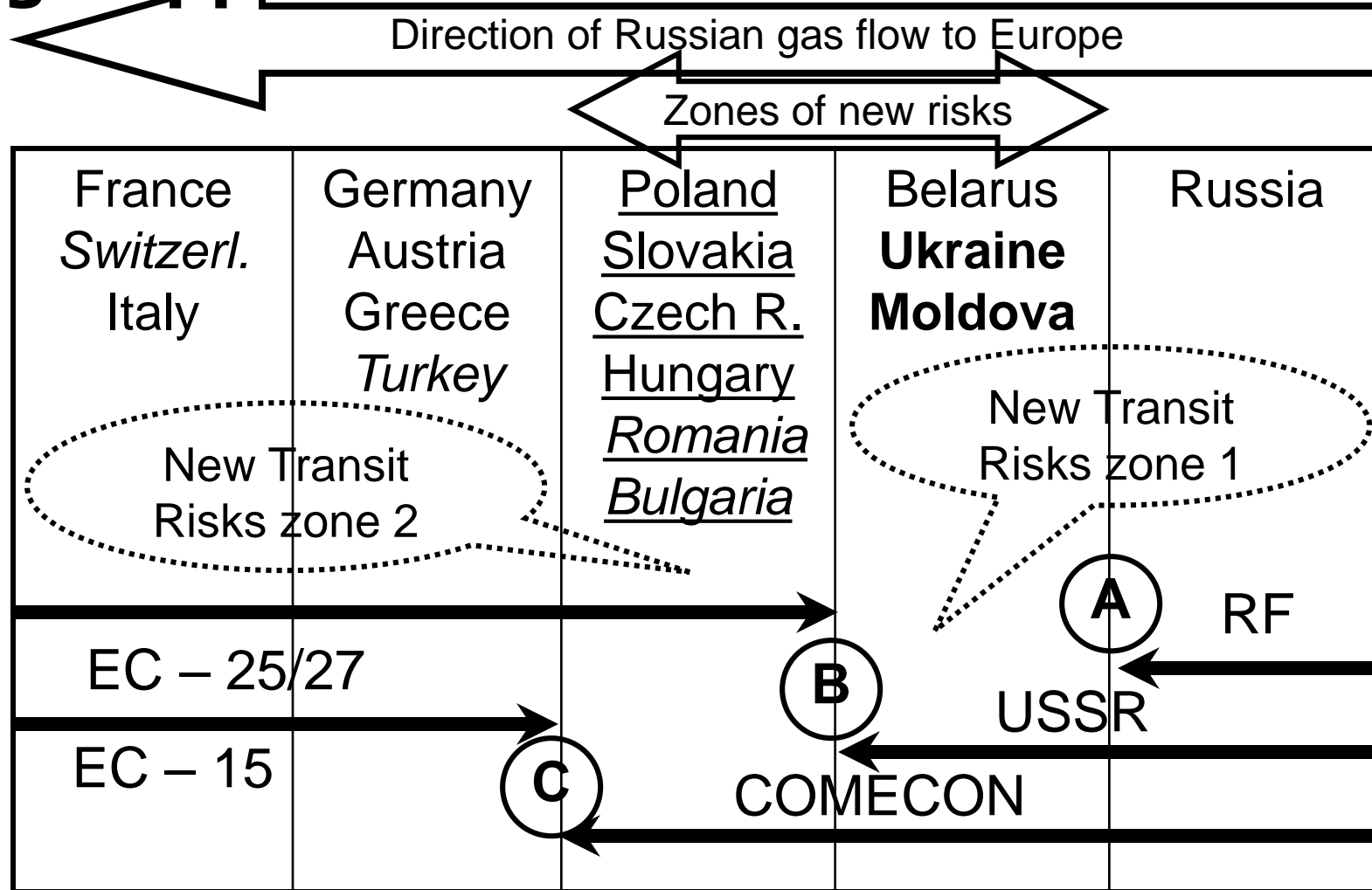
Co-chair Work Stream 2 “Internal Markets”, Russia-EU Gas Advisory Council

International Petroleum Week Conference “Re-engineering the oil and gas operating models: an industry in transition ”, London, UK, February 20-22, 2018

Topics to be addressed

- 1) General Russian concept (energy strategy) for new pipelines: why new pipelines to Europe are needed?
- 2) Why opposition to them from some forces in the EU and USA?
- 3) Whether bypassing Ukraine is politically or economically motivated?
- 4) What can be (and could have been) set against attacks on Russian alternative pipelines?

Russian Gas Supplies to Europe: Zones of New Risks for Existing Supplies Within Russia's Area of Responsibility



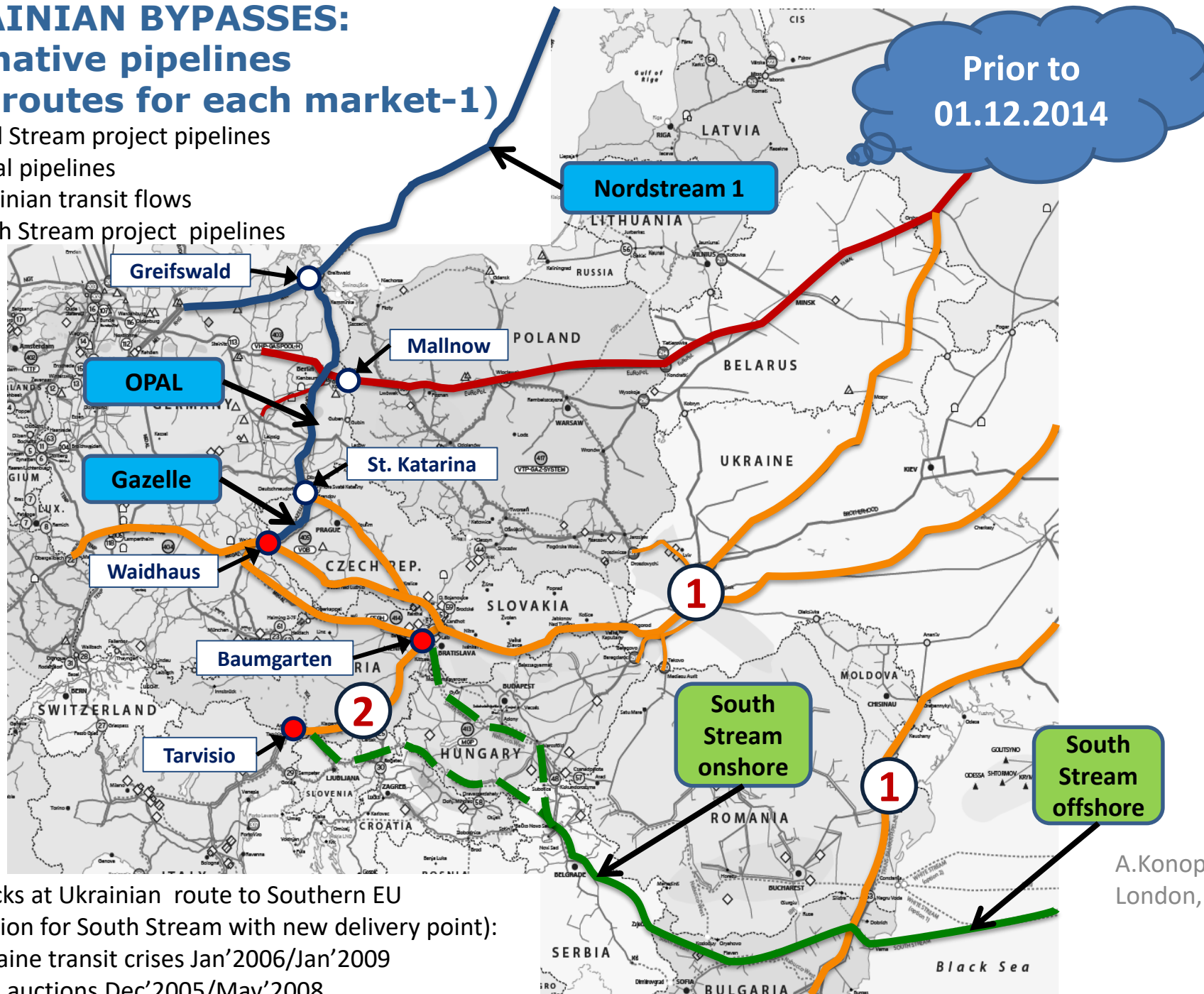
Italic – non-EU countries; New EU accession states: underlined – since 01.05.2004, underlined + italic – since 1.01.2007; **Bold** – FSU states members of ECOMT; A, B, C – points of change of ownership for Russian gas and/or pipeline on its way to Europe

Russia-EU common interest & mechanisms for minimizing transit risks

- Prior to dissolution of COMECON/USSR:
 - Delivery points at COMECON-EU border, de facto no transit via COMECON, producer/exporter had full operational control on gas value chain from wellhead to delivery point
- After dissolution of COMECON/USSR:
 - New sovereign independent states between producer/exporter (Russia) and EU => producer has lost control on transit part of gas value chain => transit risks
 - To minimize transit risks for importer & exporter = to diversify:
 - For importer: multiple sources of supply, **routes** (+suppliers)
 - For exporter: multiple markets, **routes** (+ importers)
 - => diversification of routes = common interest for producer/exporter & importer => to exclude transit totally or alternative pipelines (bypasses)

UKRAINIAN BYPASSES: alternative pipelines (two routes for each market-1)

- Nord Stream project pipelines
- Yamal pipelines
- Ukrainian transit flows
- South Stream project pipelines



Bottlenecks at Ukrainian route to Southern EU
(justification for South Stream with new delivery point):

- ① Ukraine transit crises Jan'2006/Jan'2009
- ② TAG auctions Dec'2005/May'2008

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UKRAINIAN BYPASSES: Russia's alternative pipelines (two routes for each market-2)

- Nord Streams projects pipelines
- Yamal pipelines
- Ukrainian transit flows
- Turkish Stream project (to EU border)



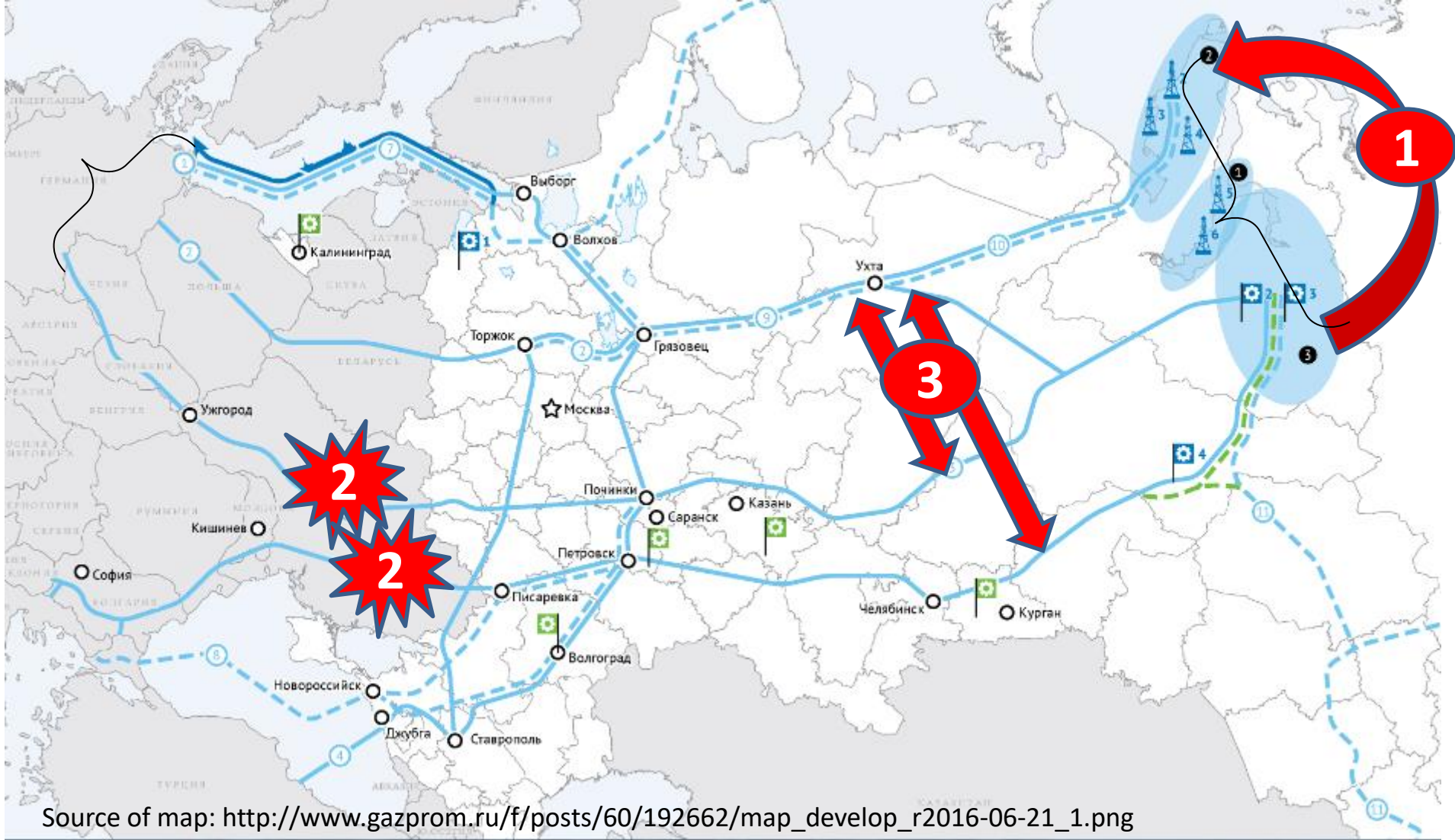
Post 01.12.2014 & 18.06.2015, but prior to 24.11.2015; again post 10.10.2016

Bottlenecks at Ukrainian route to Southern EU (justification for South Stream with new delivery point at Tarvisio):

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Russia's existing/new supplies to Europe (to the unbundled EU gas market): (1) resource base moves from Nadym-Pur-Taz to Yamal, (2) Ukrainian transit risks & costs increases, => (3) modernization existing (since end-60's) infrastructure vs new construction transportation route



Source of map: http://www.gazprom.ru/f/posts/60/192662/map_develop_r2016-06-21_1.png

Comparison of length & some other parameters for different gas routes from Yamal to Germany

	Yamal-Greifswald	NPTR-UA-Waidhaus
Pressure, bars	120/90	75/55
Distance between CS, km	240	120
Inner coating	Yes	No
Efficiency GCU	Twice high	18-25%
Gas-compressor units capacity, MWt	32, 25	12, 16 (new/UA)



Reminder: Since 2nd EU Gas Package supplies to the individual EU MS = supplies to the EU !

Compiled from public sources, incl.: С.Правосудов. Почему Газпром не доверяет украинской трубопроводной системе. // «НГ-Энергия», 16.01.2018

	Yamal – Germany routes	km
1	Yamal – Greifswald:	4166
	Yamal – Ust-Luga (within RF)	2977
	Ust-Luga – Greifswald	1189
2	Yamal – NPTR – UA - Waidhaus:	6051
	Yamal – Sudja (within RF)	3987
	Sudja – Waidhaus	2064

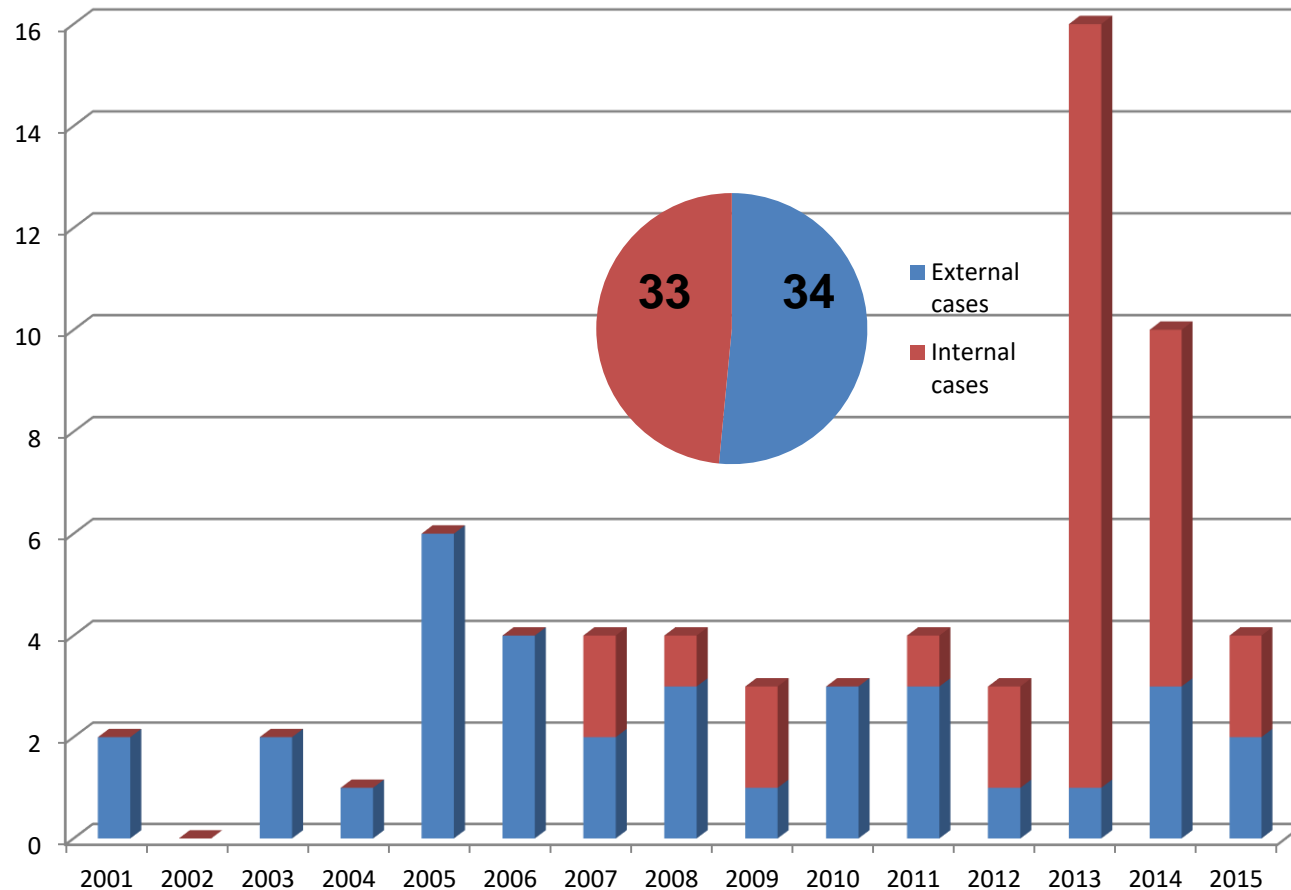
Length of the route via Nord Stream is 1885 km shorter than through UA GTS, incl. that within Russian territory the distance is shorter by 1010 km. Route via Ukraine is 45% longer than via Nord Stream.

Source: PJSC "Gazprom"

Fight against NS2: multilayer task for EU (& other players)

- To force Russia continue large-scale gas transit to EU via UA post-2019 => Russia's transit fees to UA vs financial support of UA from EU/US public finance
- Special Third Gas Directive amendments against NS2 (retroactive to investment already made): to slow down (if not to prevent) NS2 construction/start-up + to export EU acquis into Russia (MTPA => competition between Russian companies)
 - Export EU acquis upstream cross-border gas value chains = regular long-standing EU task in favour of EU business = mainstream of EU external economic policy
 - Most recent: new concept "upstream-downstream partnership" in Quo Vadis 2nd preliminary report (13.12.2017) = proposal for implementation of 3rd EU Energy Package within Russia
 - Additional (hidden?) aim (?): to provoke further conflict between Gazprom & Rosneft (on Russian gas market "liberalization" issue):
 - Gazprom: state agent (sole pipeline exporter by law) on monetizing Russian pipeline gas (maximize marketable resource rent) => to escape Russian gas vs Russian gas competition
 - Rosneft: would like to monetize its large gas resources (preferably internationally), agent agreements on gas marketing at external markets: with GPE vs with BP
 - Political consequences: open conflict between two Russian state companies = a blow on prestige of "Putin's regime"?
- Russia has withdrawn from ECT provisional application (2009), but whether ECT can help Russia/Gazprom/NS-2 sponsors to sustain anti-NS2 legal initiatives of the Commission?
 - ECT Art.13 => Art.26: Investors of EU MSs against the EU (?) (30+ precedents in EU => reverse to "Yukos Case")

Increasing number of 'investor-state' disputes based on ECT Art.26 from investors of EU Member-States against EU Member-States



For the period since 2001 (since the first 'investor-state' claim based on ECT Art.26) till 21.04.2015 – total of 67 such claims, incl. 33 claims (half of the total) is from investors of the EU Member-States against the EU Member-States, notably, within the EU (internal cases) – de facto against EU “liberalization risks

Source: У.Руснак, А.Конопляник. Эволюция модели энергобезопасности. Россия и ДЭХ: не остаться на обочине. // «Нефтегазовая Вертикаль». 2015, №10, с.4-12 (7).

Based on: <http://www.energycharter.org/what-we-do/dispute-settlement/all-investment-dispute-settlement-cases/>

Thank you for your attention!

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