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I will put aside the debate on who, when and where has started the war in Ukraine which is used now as an argument by coalition of United States and European Union against Russia and Russian energy. It was formalized on 25th March, when Joe Biden and Ursula von der Leyen announced "Task Force to Reduce Europe's Dependence on Russian Fossil Fuels".

It formally aims "to ensure energy security for Ukraine". One of "two primary goals" is "Diversifying LNG supplies". As stated, "The United States will work with international partners and strive to ensure additional LNG volumes for the EU market of at least **15 BCMA in 2022**, with expected increases going forward". International Energy Agency (10 points plan of 03 March) speaks about **20 BCMA** increase LNG imports to the EU in 2022. REPowerEU plan (of 08 March & updated on 18 May) - about LNG diversification of **50 BCMA** by end 2022.

How will this LNG best enter Europe to substitute Russian gas supplies, since LNG comes at the coastline and Russian delivery points are in the mid-continent? What consequences will this have? Who will benefit and who will lose?

<u>FIGURE 1</u>

Russia has been developing for long radial-ring system of its gas supplies to Europe (**Figure 1**) by adding two semi-rings to its historical gas transit corridors to Europe. But we did not finish it in full due to blockade of NS-2. I will speak about "disruptive" ring of global LNG supplies to Europe.

<u>Europe for LNG</u> (incl. US LNG) is a bridge market within global "price arbitrage" deals. But it is a target market for US LNG in East Europe. The aim is two-fold – "to kill two competitors":

(a) "*to kill the competitor <u>number one</u>*" - means: Russian gas in Europe, by cutting it off EU by putting "security of supplies" issues on top of the political agenda. This means the price of responding measures does not matter,

plus

(b) "*to kill the competitor <u>number two</u>*" - means: to diminish global European competitiveness beyond energy, by substituting more cheap Russian pipeline gas by more costlier "freedom molecules" of US LNG at the burner tip in the EU. This will increase energy costs of European manufacturing goods and will diminish its global competitiveness while providing market for US LNG and thus supporting US domestic industries.

<u>FIGURE 2</u>

For US LNG to be "in the money" in Europe, there should be no Russian gas there with its lower cut-off end-user prices (at the burner tip). This is why cut-off of Russian gas from Europe is vitally needed for US LNG to be in Europe.

(1) This is why 10 points of IEA starts with "no prolongation of Gazprom's contracts expiring in 2022" (appr. **15 BCM**),

(2) This is why REPowerEU starts with “LNG diversification” equal to **50 BCM** before end-2022,

(3) This is why first countries to refuse to switch to new payment procedure for Russian pipeline gas (I will come to it in the end) were Poland and Bulgaria with their state companies who received corresponding orders from their Governments prohibiting them to switch to updated procedure. Poland and Bulgaria are the entry points for US LNG into Eastern Europe, they would like to be the “dispatching centers” for non-Russian gas flows to the EU from the North-East and South-East. Their long-term contracts with Gazprom were to expire at end-2022, so they just cut-off their purchase obligations few months in advance contract expiration date, thus surpassing point 1 of IEA plan,

(4) This is why the story at Sokhranovka of 11 May when Ukraine refused to accept Gazprom’s request for transit capacity at this entry point thus cutting transit volumes through Ukrainian corridor by about one third,

(5) This is why the story with Canada’s refusal few days ago to allow Siemens to return repaired gas turbine to Portovaya Compressor Station – entry point of NS-1 (expanded sanctions were introduced already after this turbine arrived in Canada for repair),

(6) This is why, finally, the story with NS-2 and OPAL, etc.

To substitute Russian gas, re-gasified LNG should have to go to European mid-continent, where delivery points of Russian gas are located, from the coastline through the "west-east" or "north-south" and "south-east" pipeline infrastructure. But such infrastructure mostly does not exist (red arrows at **Figure 2**).

So US LNG aims to enter EU from the East, through Eastern Europe, via LNG Regaz terminals at the Baltic Sea (Poland - Swinoujscie, Gdansk; Lithuania - Klaipeda) and Aegean Sea (Greece – Revithoussa, Alexandroupolis), Marmara Sea (Turkey - Marmara) and Adriatic Sea (Croatia - Krk). Total annual capacities about **25-30 BCMA**. Then re-gasified LNG would go to the south and to the north in direction to UGS of West Ukraine (total capacity of five UGS there about **25 BCM**) (yellow arrows at **Figure 2**).

FIGURE 3

This philosophy has been supported by Ukraine and is well illustrated by the chart from presentation of Sergey Makogon (CEO of Gas TSO of Ukraine) (**Figure 3**). Since 2017 Ukrainian UGS operates in the legal regime of "customs warehouse", physical reverse flows capacities are established at the West borders of Ukraine. This enables to use West Ukrainian UGS to influence state of the market in Baumgarten, at CEGH. It is vitally important for re-gasified US LNG to receive access to UGS of West Ukraine since this will help to compensate discrete character of LNG deliveries.

Back to FIGURE 2

And here is the most important point: if/when re-gasified US LNG (through yet to be fully developed "North-South" corridor within East Europe) reaches Ukrainian gas transit corridor, it can use available capacities of this corridor in west-bound direction from Western Ukrainian UGS (**Figure 2**).

This is the plan, as I can see it.

FIGURE 4

Institutional instrument for development of "North-South" gas infrastructure corridor in Eastern Europe, is the "Three Seas Initiative" established in 2016 by 12 East European states with strong ongoing support of the USA. In a few days in Riga the members of the "Initiative" will discuss observer status of Ukraine in it. Ukrainian UGS are vitally needed for "Three Seas" since any gas infrastructure corridor without UGS as a compensatory mechanism for gas flows has little value.

This "Initiative" is de facto a successor of the similar plan of "Intermarium" presented a century ago by Pilsudski. Now adapted to gas. But with the same aim well explained by George Friedman (**Figure 4**).

So the real aim of the US is to weaken Europe in global competition in favor of its close political ally – the US itself.

Energy cooperation between Russia and the EU with its cheaper energy supplies compared to alternative options has been beneficial for the EU since has led to increase of welfare of EU citizens. So it is good to consider once again – which cooperation is for real benefit of the EU…

And finally few words about new payment scheme (**Figure 5**).

<u>FIGURE 5</u>

New procedure provides two safety contours for both seller and buyer of Russian gas (**Figure 5**). It aims to protect against repetition of the negative precedent when 300 BLN USD of Russian international liquidity reserves were frozen by Western states.

Any sovereign state has "the right to regulate". Russian state used this right and ordered its state-controlled company Gazprom how to diminish "currency risks" created by this negative precedent for both sides of the contract. This mechanism became legally-binding by Presidential Order #172 as of 31 March.

Some European states have also used their "right to regulate" in respond to this Russia's action. Among **54** companies-buyers of Russian pipeline gas (according to Alexander Novak, Deputy PM), only **six** companies from **five** so-called "unfriendly states" have refused to move to new payment scheme. All **5** companies from these **5** states (PGNiG - Poland, Bulgargas - Bulgaria, Gasum - Finland, Orsted - Denmark, Gas Terra - the Netherlands) are state-owned or state-controlled companies. So these were purely politically motivated decisions aimed at deliberate result by Order #172 – cancellation of supplies.

Earlier European Commission has multiply used this “right to regulate” against Gazprom. I would mention only two episodes:

1. In 2003 it required to exclude “destination clauses” from all Gazprom’s contracts with EU companies,
2. In 2012 it required to adapt pricing formulas in Gazprom’s contracts in Central and East Europe from oil-indexation to hub-indexation.

Finally, I do very much hope that EU and Russia will return in the post-war future to their mutually-beneficial energy cooperation, though in “new reality” and “new normality”, in the mutual interests of the citizens of the two. Joint US & EU intention to nullify Russian energy supplies to the EU makes no good, especially for the EU. It serves in the benefit of the US only.

Thank you for your attention!

Disclaimer!