

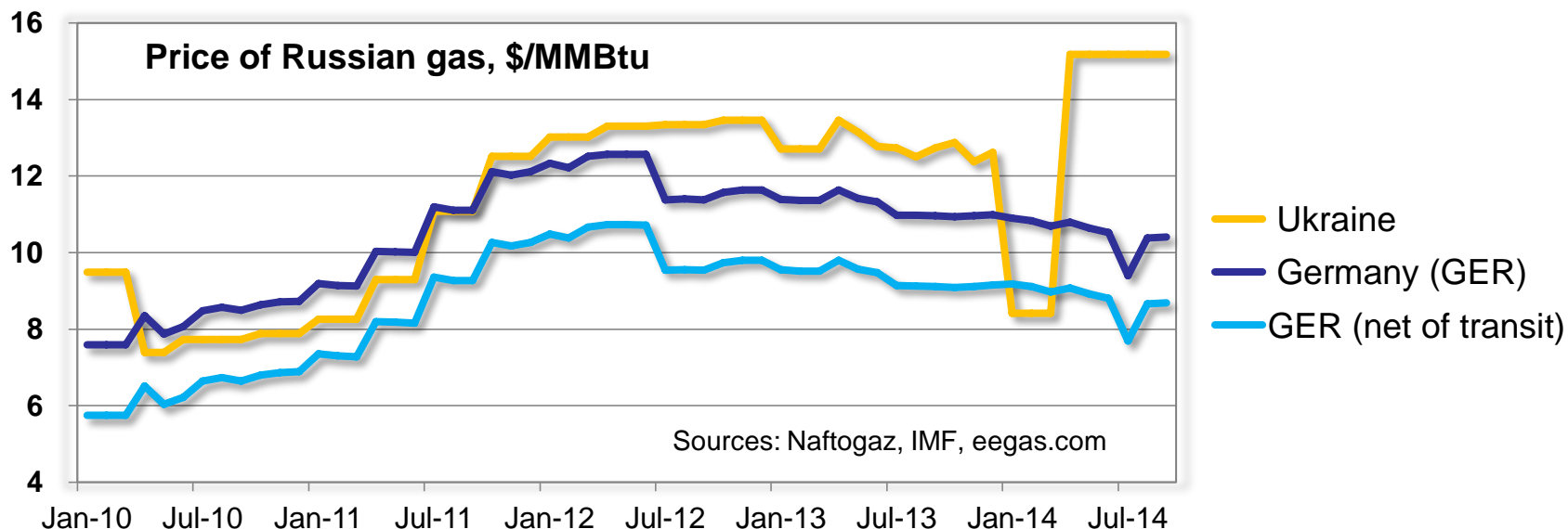
CAN RUSSIA, UKRAINE AND EU REACH A GAS AGREEMENT?

Mikhail Korchemkin
East European Gas Analysis
Malvern, Pennsylvania, USA

Carnegie Endowment for International Peace
DC, October 9, 2014



The Export Price Dispute



- ***“Gazprom is bringing FSU contract prices to the level of equal profitability with European exports”*** - <http://www.gazprom.ru/about/marketing/cis-baltia/>
- ***“During the past four years Russia has been subsidizing Ukraine’s economy by offering slashed natural gas prices worth 35.4 billion US dollars”*** – Vladimir Putin, April 10, 2014, <http://eng.kremlin.ru/news/7002>
 - In fact, the netback price of Russian gas at the Russian-Ukrainian border (price in Germany net of the cost of transit) was above the Ukrainian price only in Q1-2014;
 - According to Mr. Putin, Russia’s “subsidies” to Germany are well above \$50 Bn.

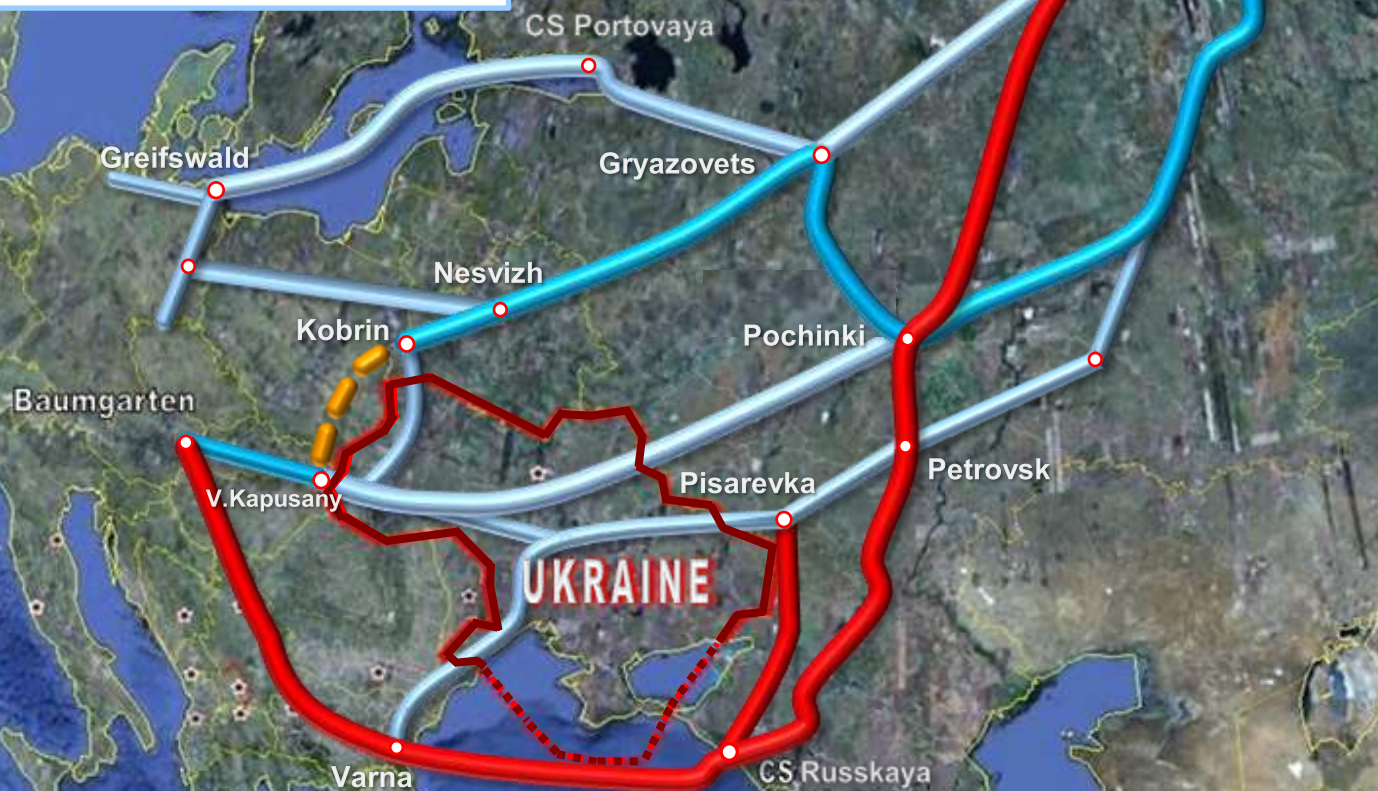
**South Stream + Feeding Pipelines +
Financing ~ \$90 Bn**



It's business, not just politics

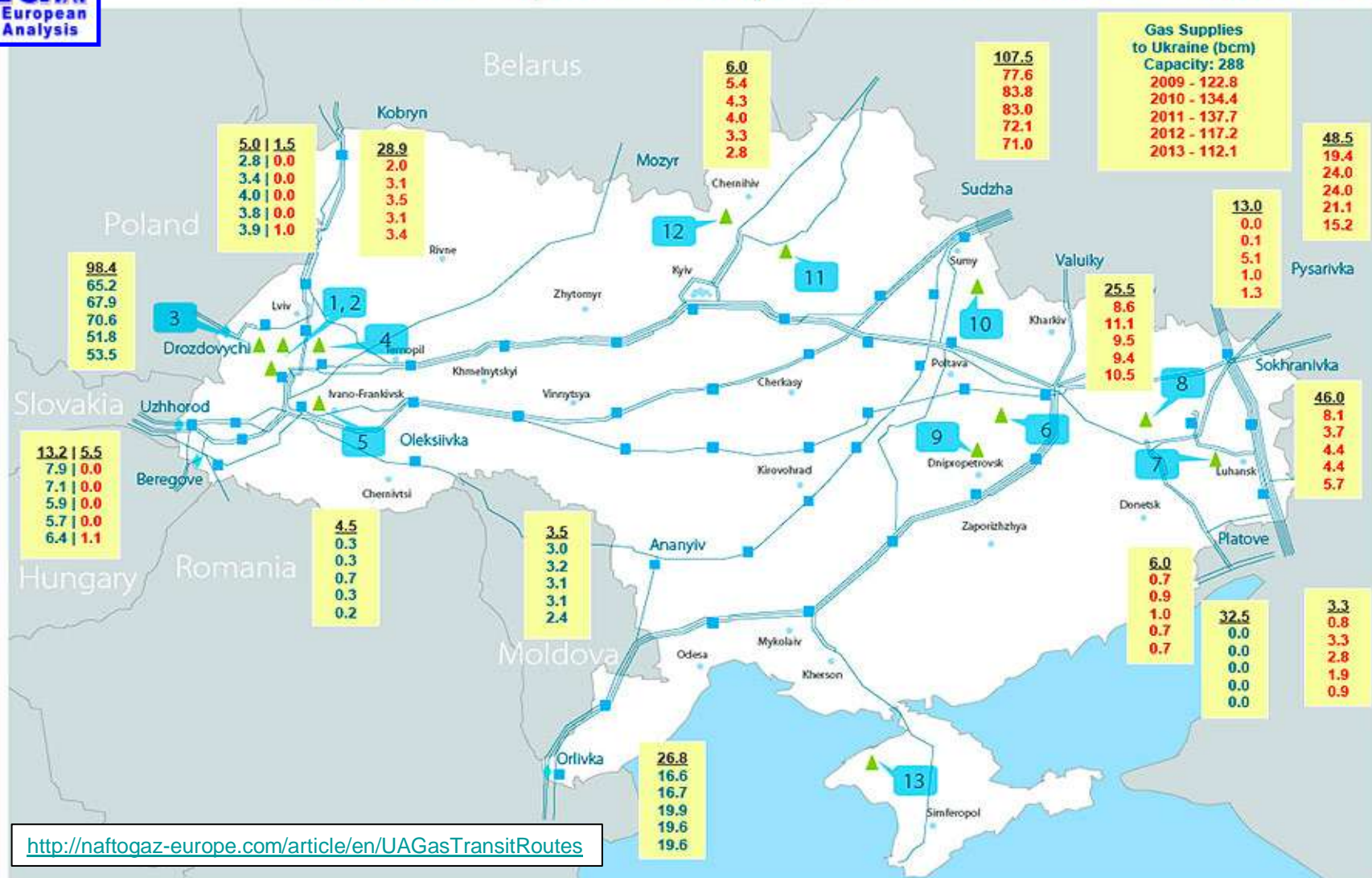
**South Stream + Feeding Pipelines +
Financing ~ \$90 Bn**

Plan abandoned in 2002 ~ \$8 Bn



South Stream lobby is getting a nice piece of the \$90 Bn

Gas flow at input and output of Ukrainian GTS in 2009-2013



<http://naftogaz-europe.com/article/en/UAGasTransitRoutes>

▲ Underground Gas Storages

- | | | | |
|----------------------------|-------------------|-------------------|-------------------------|
| 1. Bilche-Volytsko-Uherske | 4. Dashavske | 7. Verhunske | 10. Solokhivske |
| 2. Uherske (XIV-XV) | 5. Bohorodchanske | 8. Krasnopopivske | 11. Chervonopartyzanske |
| 3. Oparske | 6. Kehychivske | 9. Proletarske | 12. Olyshivske |
| | | | 13. Hlibovske |

Total Capacity

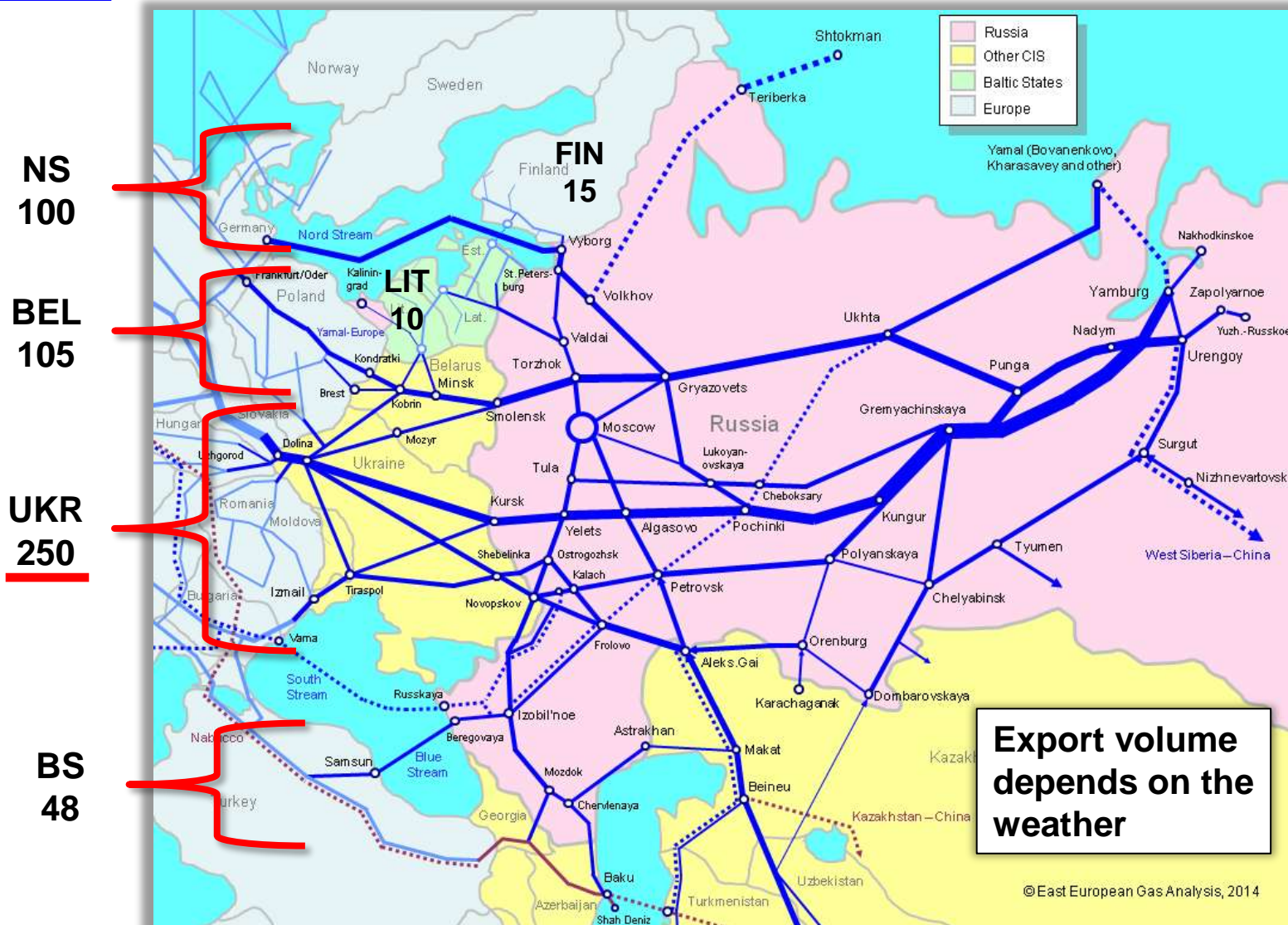
13.2 | 5.5
7.9 | 0.0
7.1 | 0.0
5.9 | 0.0
5.7 | 0.0
6.4 | 1.1

Source: Ukrtransgaz, 2014

— Inflow 2009-2013

May 22, 2012

Winter Exports to Europe + Turkey = 300-520 mmcmd



Short-Term Sources of Additional Gas

- Turning on the nuclear power plants of Japan is the fastest and the least expensive way to get additional gas for Europe
 - Restoration of Japanese nuclear power could free up to 100 mmcm a day of LNG, part of which is likely to be diverted to Europe
- A temporary waiver of the EU regulation that prohibits the full use of the OPAL pipeline by Gazprom can lift the Nord Stream flow to 160 mmcmd
- LNG terminal in Lithuania will be commissioned in less than two months



Restoration of Gas Transit through Russia?

- **Russia's dependency on Ukrainian gas transit prevents the Kremlin from escalating the conflict**
 - South Stream would have eliminated this barrier
 - American and European sanctions slow down the construction of South Stream
- **Ukraine could get gas from Central Asia**
 - Freedom of international gas transit through Russia was banned in 2006
 - Mr. Putin is concerned about gas transit more than any other politician
 - Gas transit ban contradicts the WTO rules



Conflicting Goals of President Putin



- Putin wants to commission his pet project – the South Stream gas pipeline
 - It looks like Russia is ready to accept the EU rules on the 3rd party access
 - South Stream to replace Nabucco for Azerbaijani gas?
- Putin wants to show the importance of Russian gas for Europe
 - Winter is getting closer
 - Here comes the tap
- Gazprom needs cash from Europe to build the pipeline to China (by the same contractors)
- Putin wants to punish Ukraine for something he considers insulting
 - Gazprom needs transit to Europe



2015 is likely to be another
Year of the Pipe

THANK YOU

