

Russian natural gas supplies to Europe Competition with the US LNG

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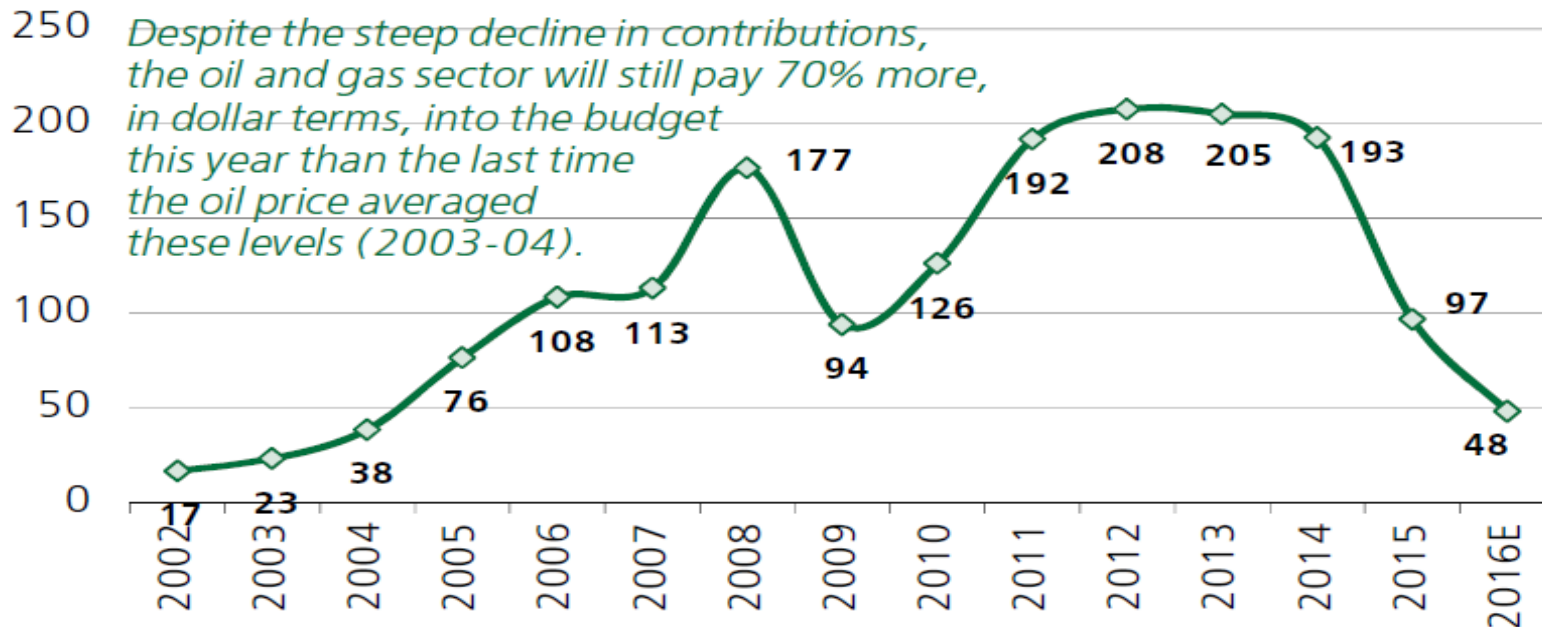
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Hague
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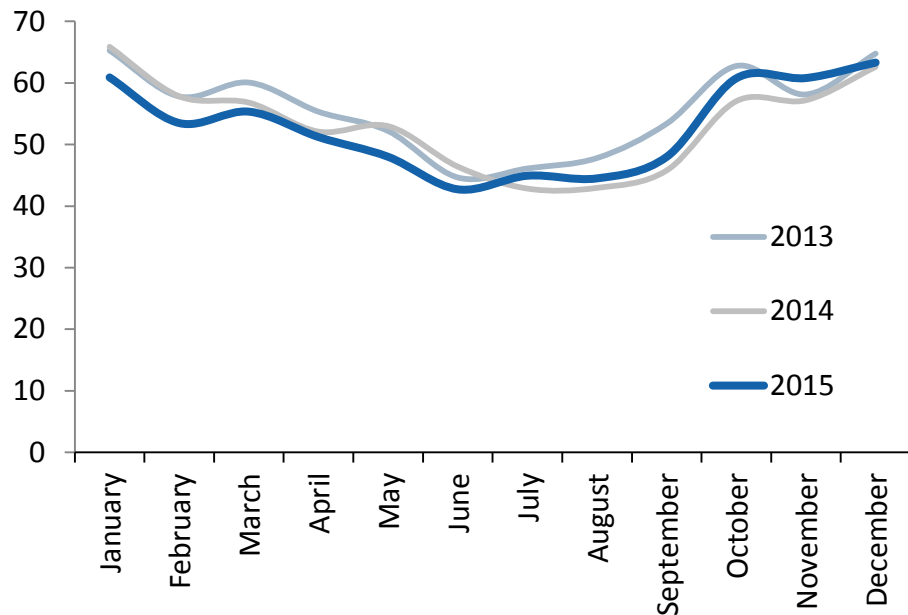
Decline of oil and gas revenues is a huge challenge for the state budget

Federal budget receipts from oil and gas, \$ bln

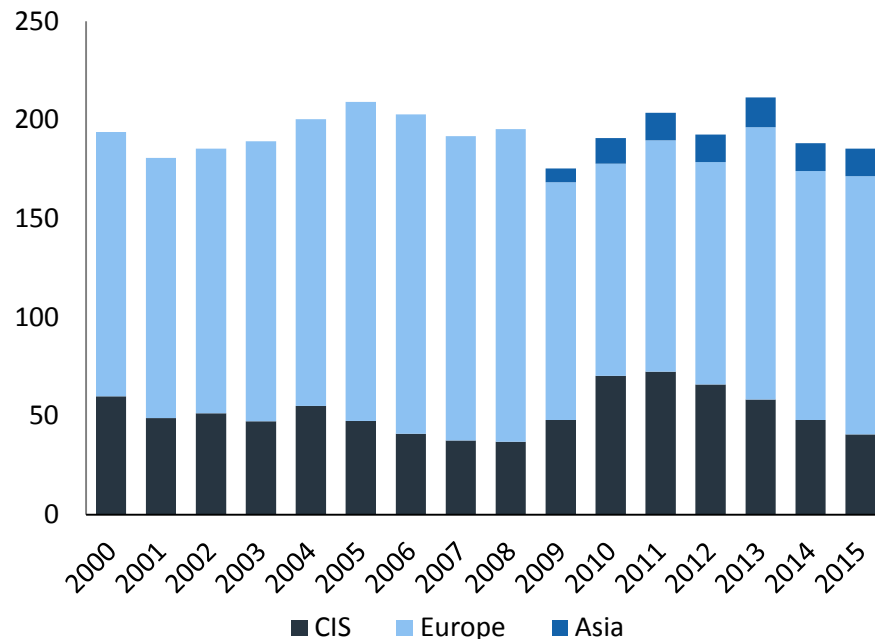


Status quo: gas production and exports are stagnating

Monthly gas production in Russia in 2013-2015, bcm



Russian gas export dynamics by destination in 2000-2015, bcm



Sources: Rosstat, CDU TEK

Increasing gas bubble in the domestic market

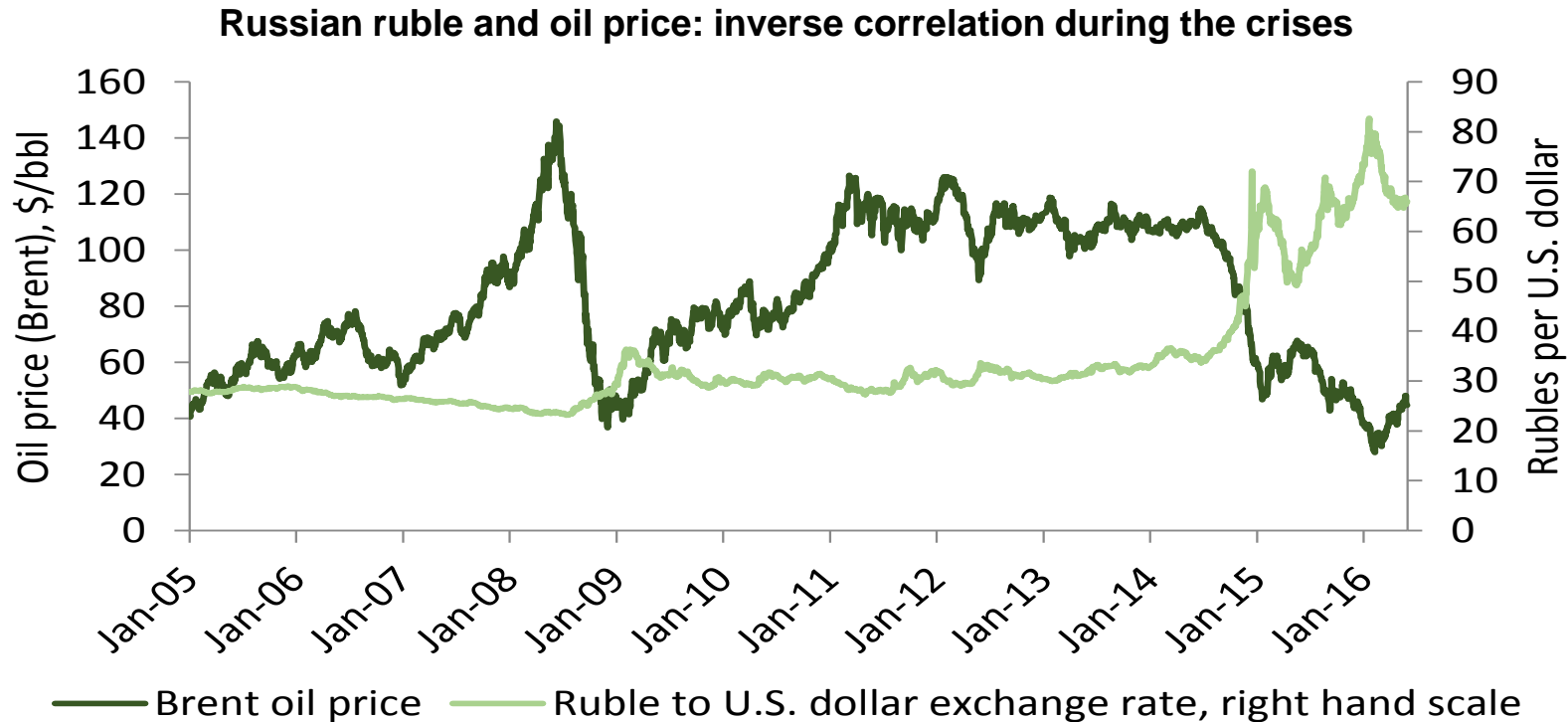
Company	Production in 2015, bcm	Unutilized potential and capacities additions under development by 2020, bcm
Gazprom	406	~155
Novatek	52	~48
Rosneft	42	~48
VIOCs (APG)	46	~15
TOTAL	635,5	266

Rosneft and Novatek have extremely ambitious plans on gas production expansion, obligatory utilization of the associated petroleum gas (APG) and its priority pipeline access stimulate VIOCs gas output growth



Gazprom is looking for the external markets

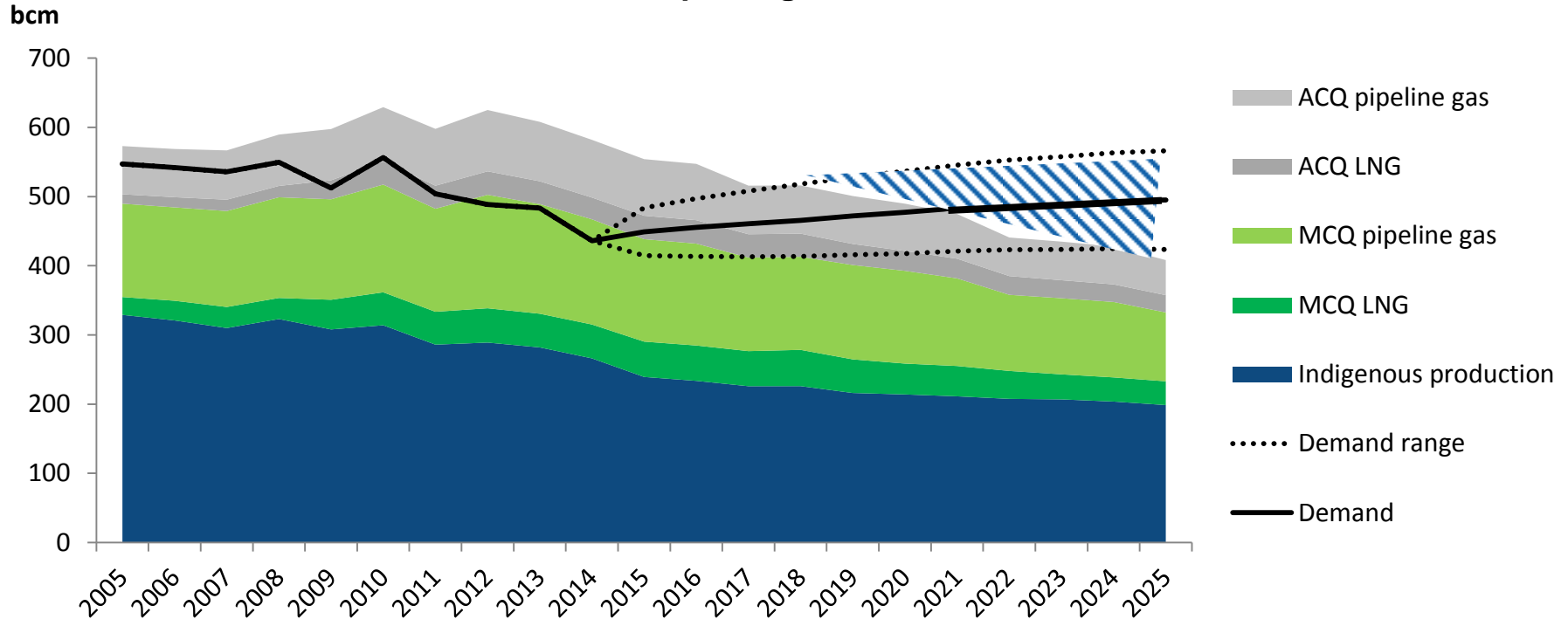
Ruble devaluation helps to overcome the negative effect of price decline



Source: Bloomberg.

European gas market is strongly over-contracted and locked in the TOP contracts, it is very difficult to expand market share

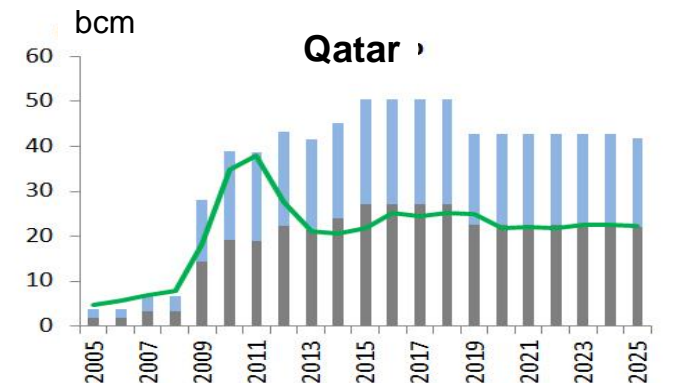
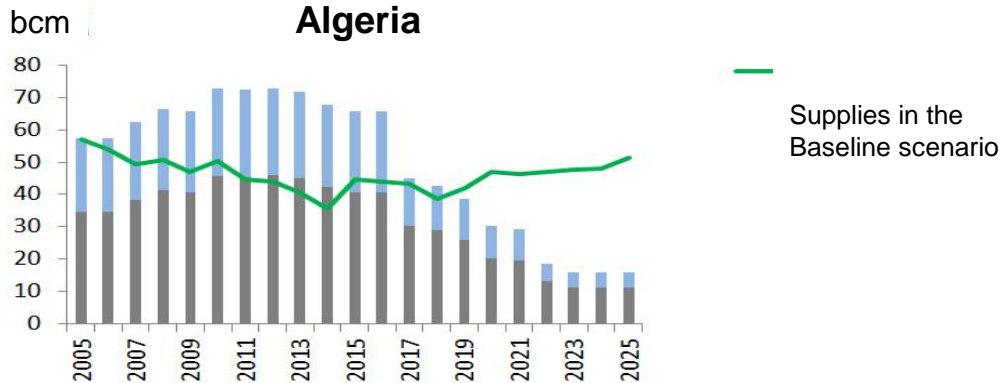
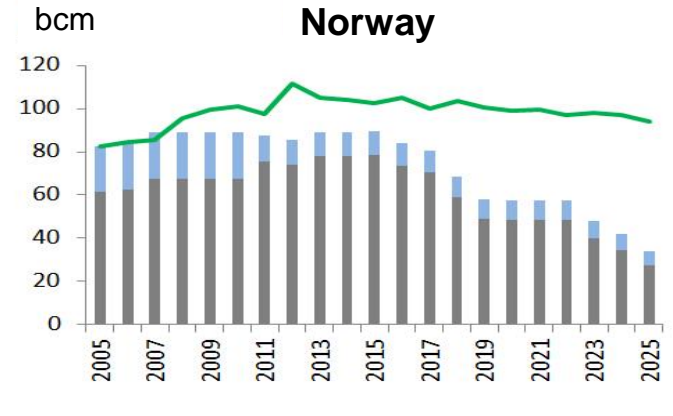
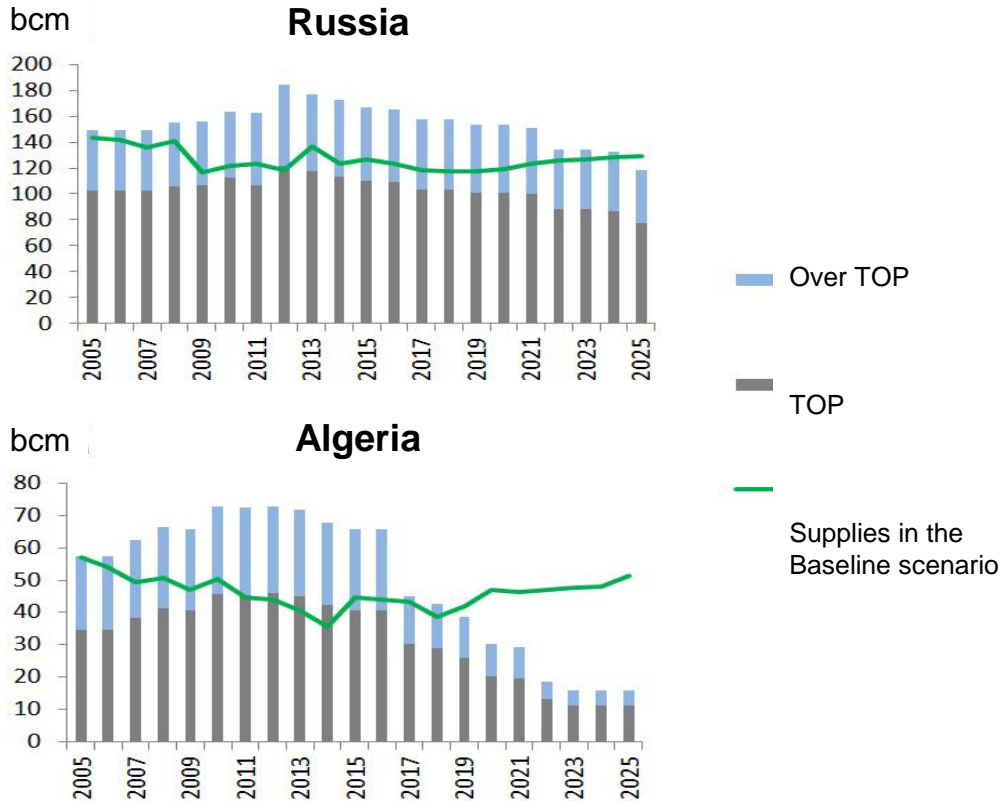
European* gas balance



* Europe-41 without Turkey

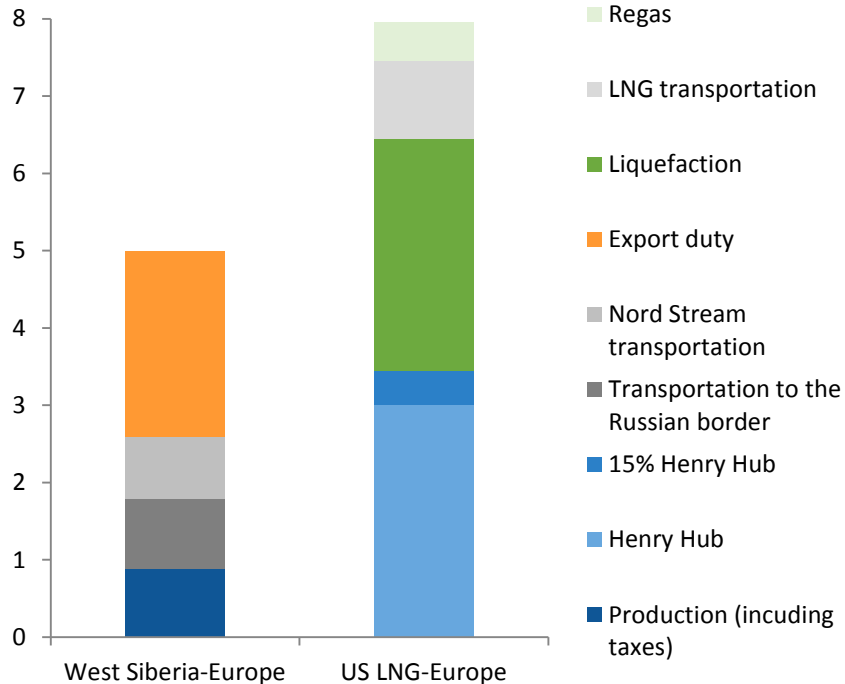
Source: ERI RAS

Russia has the largest contract portfolio, which guarantees at least 115 bcma of exports up to 2023

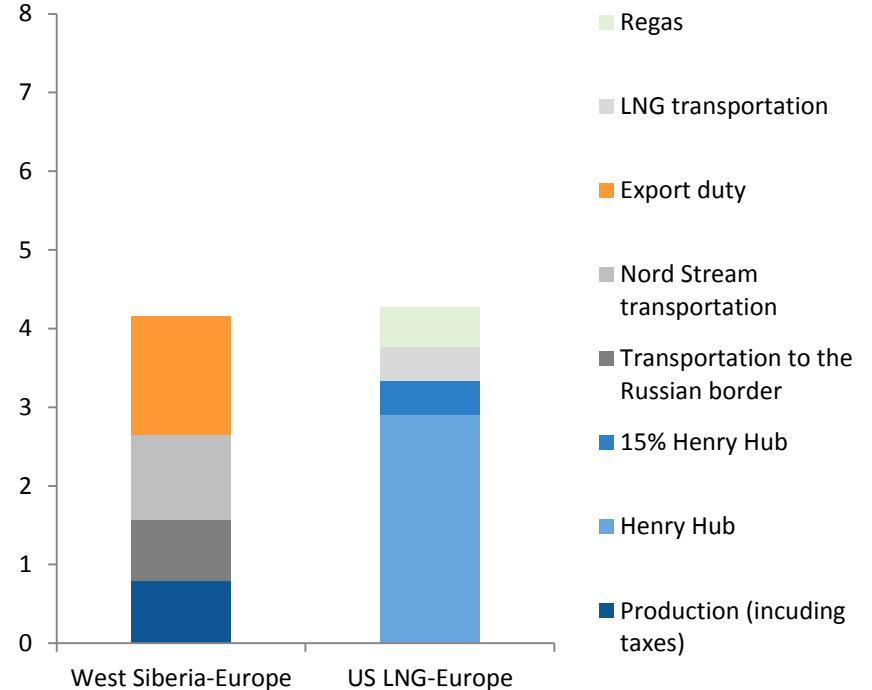


Russia is well placed to defend its market share on the European gas market if needed

Long run marginal supply costs to Europe (Russian pipeline gas and US LNG)

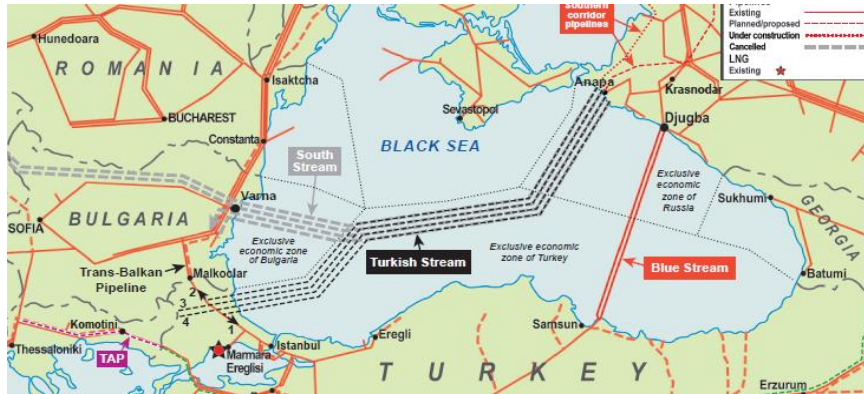


Short run marginal costs to Europe (Russian pipeline gas and US LNG)



Pipeline uncertainty underlines evolving nature of the Russian transportation strategy and political uncertainty

South Stream and Turkish Stream



Nord Stream, Lines 1-4



- Russia has adopted a rather opportunistic export pipeline strategy over the past 12-18 months
- Focus now appears to be on Nord Stream 2, indicating a focus on market in NW Europe
- Black Sea pipeline could materialise, although destination remains unclear – politics a major stumbling block
- EU not keen on Nord Stream 2, insistent on maintaining transit through Ukraine
- A compromise solution is likely – some Ukraine new pipelines

Conclusions

- ❑ Dominant position of the Russian gas in Europe is fixed by the LTCs.
- ❑ The EU wants to diversify away from Russia, but there are few alternatives and the EU knows that. Limited gas volumes are available through the Southern Corridor, frozen production in Netherlands, limited capability by Norway to increase production, stagnating production in North Africa.
- ❑ The next fight for EU gas market share will therefore be a fight between Russian gas and LNG (first of all US LNG). If Russian gas will be threatened, Russia will no longer fight for high gas prices (as in 2009), but for market share, even if this means low prices.
- ❑ Compared to most of its new competitors, Russia has a lower cost gas supply base and can thus engage on a price war if needed.
- ❑ Nevertheless Russia would prefer to avoid price war with the US and Qatar LNG in order to maintain export revenues.