

A large, stylized blue flame graphic on the left side of the slide, composed of several curved, overlapping shapes that resemble flames.

## Security of Demand for Natural Gas in Europe

View from Gazprom Export

by Sergei Komlev

Head of Contract Structuring and Price Formation,  
Gazprom Export

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In order to make Russian Gas Supplies to the EU secure it has to:

- Review its strategic energy policy aim to decrease dependence on Russian gas as discriminatory and destructive;
- Take its part of responsibility for the January 2009 transit crisis. EU's reaction to the crisis was reactive and not proactive. EU failed to use its enormous political muscle to persuade Ukraine not to revert to transit blackmail.

# Security of Demand for Natural Gas in Europe

***“The EU should reduce its energy dependency on Russia but the EU should not back out of the mutual partnership”***

Günther Oettinger, new European Commissioner responsible for energy policy. January 14, 2010.

***Is it possible to build a consistent policy based on these two conflicting goals?***

## Goal 1: promoting the strategic relations with Russia.

### Action plan:

- Upgrade projects with Gazprom participation up to T-E-N level.
- Consider gas projects circumventing Russia on commercial basis.
- Treat the EU solidarity principle as the right for any member state to buy Russian gas.
- Assure security of demand for Gazprom.
- Make broader use of natural gas in the EU's energy mix as the cleanest fossil fuel.



## Goal 2: decreasing the dependency on Russia.

### Action plan:

- Downgrade projects with Gazprom participation in the EU's priority list.
- Award gas projects circumventing Russia with public finance in case of insufficient private support.
- Promote “team spirit” with Russophobe minority in the EU.
- Speak with one “tough” voice with Gazprom on energy matters.
- Subsidize any energy sources alternative to natural gas for security reasons.

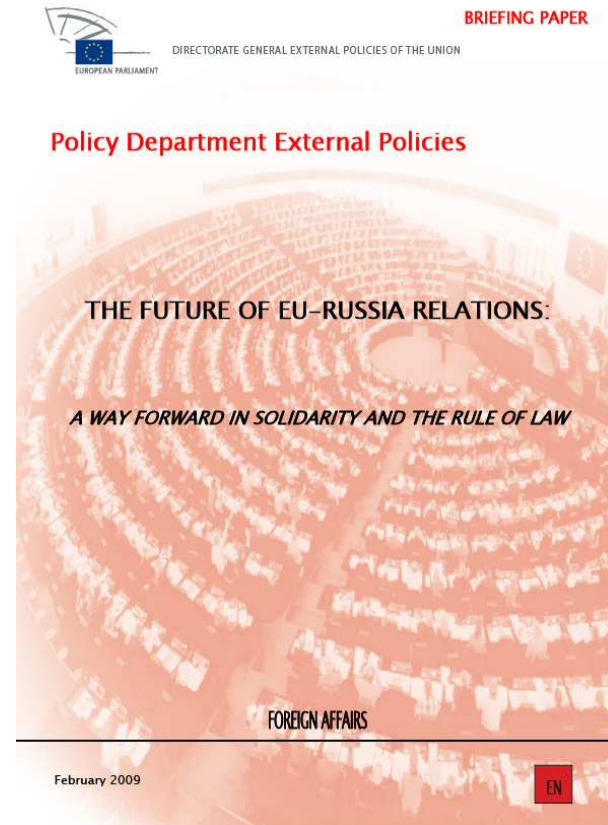
## There is No Economic Reason to Discriminate Against Russian Gas

- Gazprom's role of dominance in the EU market is highly exaggerated.
- Prices for Russian gas are on par with its competitors' oil-indexed prices.
- The quality of Russia's gas is high, with the highest methane content.
- European customers are perfectly protected by long-term oil-indexed contracts against any form of monopoly abuse of power.
- With long-term contracts in place any form of OPEC-style cartel in gas is impossible. It is a European buyer, not a supplier, who defines daily volumes within the range provided by the contracts (DCQ).
- Presence of Gazprom's affiliated companies in Europe only increases competition.

# Political Reasons to Discriminate Against Russian Gas.

***“In the 1990s, EU Member States found it easier to agree on a common approach to Moscow. Their respective policies coalesced to form a strategy of democratizing and ‘westernizing’ a weak and indebted Russia. That strategy is now in tatters.***

***Soaring oil and gas prices fuelled the development during Putin’s second presidency of a more assertive Russia no longer interested in aligning itself with the west.”***



(Andrew Wilson, Nicu Popescu and Pierre Noël. The Future of EU-Russia Relations: a Way Forward in Solidarity and the Rule of Law. Foreign Affairs. February 2009)

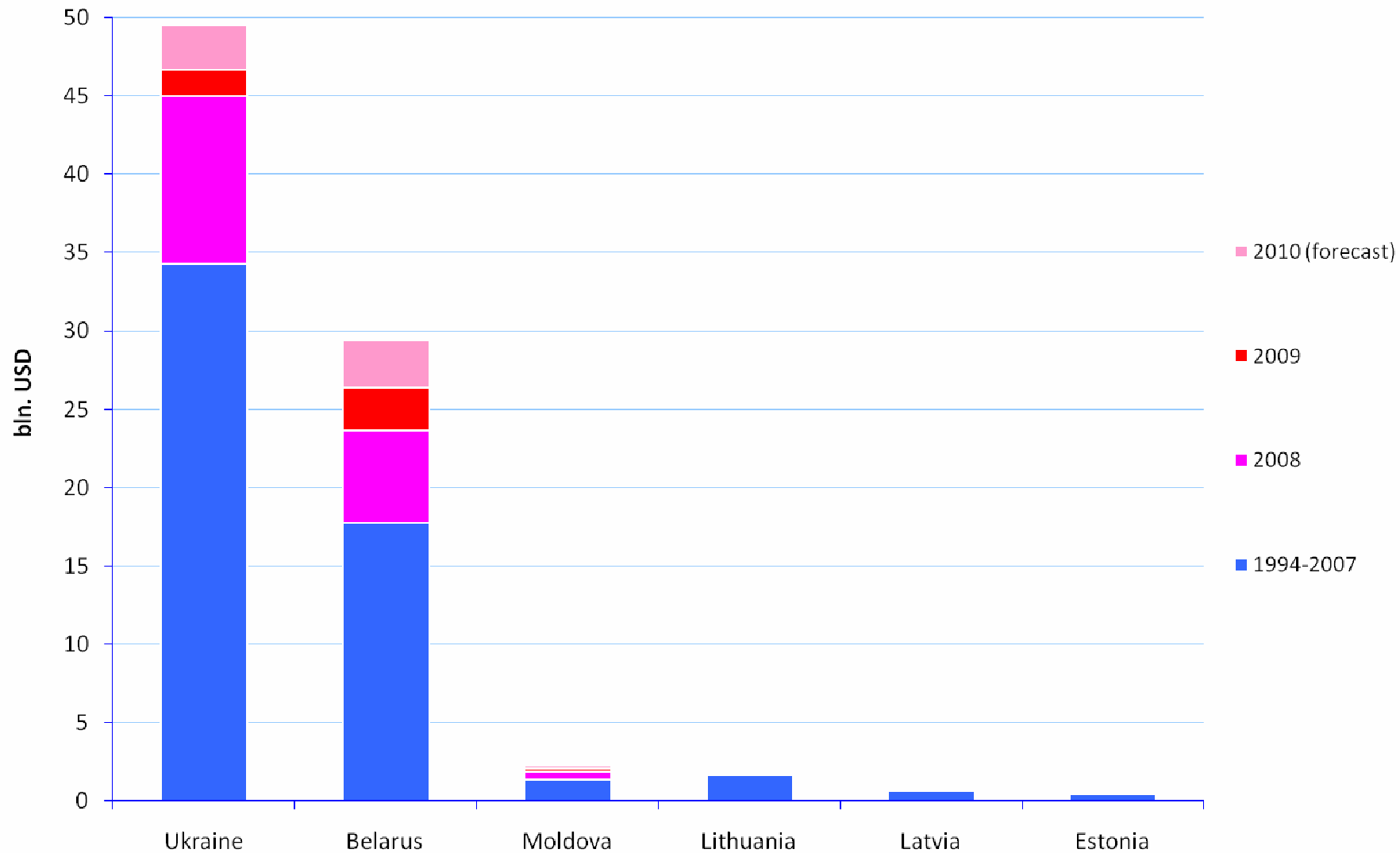
## Security of Demand for Natural Gas in Europe Wake-up Call # 1.

- In March 2008 Gazprom partially cut-off supplies to Ukraine demanding payment for previous deliveries. The Ukrainian company responded with the following statement: "Naftogaz can only guarantee uninterrupted transit of gas to European consumers as long as it does not threaten Ukraine's energy security".
- The EU Energy Commissioner Andris Piebalgs identified a "real threat" to the EU supply but preferred not to notice transit blackmail. Without going into detail, Piebalgs blamed both sides for escalation of a "commercial" dispute and called for development of the EU's common energy market.
- We would not be discussing the security issue today if the European Commission had taken a different approach, act in accordance with the proclaimed principles. It had to proactively warn Ukraine that transit blackmail is unacceptable for a country aspiring to Eastern Partnership and to EU membership.
- This would have cost Europe nearly nothing, but was done neither in December 2008, nor in early January 2009.

## Security of Demand for Natural Gas in Europe. Wake-up Call #2.

- In December 2008, the “price” dispute between Gazprom and Naftogaz was not over market price, but over the size of the subsidy that Ukraine was demanding from Russia. Historically, Russia has provided Ukraine with subsidies through below market price gas that have reached astronomic levels.
- The EU’s negative attitude towards subsidies is well known. If a spat over subsidy was creating a threat to European supplies, it would be logical for European Commission to voice its opinion on subject of the dispute. If it was operating in the spirit of true partnership, it would have advised Ukraine that Gazprom was not obligated legally or otherwise to provide subsidized prices on gas, but had done so out of goodwill. This would have contributed to a solution to the January crisis before it came to a head.
- Russian Government and Gazprom warned EU of a transit crisis threat on a number of occasions but Commission ignored this wake-up call #2. It abdicated from its responsibility to step in claiming that it does not interfere into a commercial conflict which was clearly not a case.

# Accumulated Gap Between Average European Price and FSU Prices





# Security of Demand for Natural Gas in Europe

Ukraine had refused the Russian sales contract and therefore was officially not receiving any gas for its domestic market, but was contractually obligated to transit Russian gas to European customers. EU and Energy Charter Secretariat have not reminded Ukraine of this obligation when the Ukrainian court on January 5<sup>th</sup> declared the transit contract with Russia null and void. And it is good question why?

Meanwhile EU developed a "perfect" excuse not to take responsibility for the crisis settlement exhibited by Vaclav Bartuska, the Czech Ambassador-at-Large for Energy Security in May 2009:



***"Gazprom is under the contractual obligation to sell its gas at the EU border, how you [Russia] deal with Ukraine is your problem and yours alone. This January you've tried this trick already, we refused to pay for it. We paid a fair price at the EU border and you'll have to deal with Ukraine yourself. Good luck,"***

# Security of Demand for Natural Gas in Europe



- Once the dispute was finally settled, the EU's verdict was the following – “We do not know exactly who is responsible, and we are not interested indeed in finding this out, but we believe that supplies from Russia are insecure.”
- This verdict is unfair, but is consistent with a political agenda within elements of the EC to inspire fear of Russia as an energy supplier. These elements have chosen Russia and Gazprom as a “boogey man” for creating a new pan-European energy identity. These elements lobby EU member states by saying that if Europe does not talk with Russia and Gazprom with one voice with Russia and Gazprom, then the big, bad “boogey man” will get you.

# European Commissions' Approach Towards Transit Crisis Investigation



“With regard to the recent gas crisis, the European Commission is not in a position to take sides, in particular because we are not acquainted with all contractual obligations of the sides.”

*Heinz Hilbrecht,*  
 Head of the Gas Coordinated Group, a body which advises the Commission on gas supply issues.

"We have no proof that Ukraine took away gas illegally,"

*Andris Piebalgs*

## Gazprom losses and European customers' gains as a result of Ukrainian transit conflict, January 2009



Gazprom Losses	European Customers' Gains
Lost revenues for 4.5 bcm of undelivered gas – USD 1,876 m	Price arbitrage gains due to substitution of expensive Russian gas (average price in January 2009 – 416 USD/mcm) with spot market purchases (85 % of volumes; average NBP price in January 2009 – 230 USD/mcm) and deliveries from underground storages (15 % of volumes; average BAFA price in H1 2008 – 383 USD/mcm) – USD 688 m
Take-or-pay obligations write-off for 4.5 bcm of undelivered gas - USD 943 m	USD 943 m in take-or-pay obligations write-off for 4.5 bcm of undelivered gas
Fines for failure to meet daily nominations because of the transit stoppage – USD 128 m	Fines for failure of Gazprom to meet client's daily nominations – USD 128 m
Pipeline capacity paid but unutilized – USD 29 m	
<b>Total losses: USD 2,976 m</b>	<b>Total gains: USD 1,759 m</b>

## Security of Demand for Natural Gas in Europe: No Lesson Taken

22 June, 2010: Jerzy Buzek, The President of the European Parliament, said at a meeting with Russian Energy Minister Sergey Shmatko:

"There is no security of Russian gas supply. The quantities that are being supplied are lower than we expected," According to his information, Lithuania, the east of Germany and Poland have suffered from the problems with gas transit through Belarus."

Buzek preferred to give no critical assessment of transit blackmail.

Meanwhile, Shmatko has denied this information.

"I have no such information. Deliveries, including those to Poland, are being carried out in full. I am not aware of supplies having decreased over the past day or two," he said.

Shmatko added that Gazprom's aim was to ensure uninterrupted transit of Russian gas.

## Conclusions (1)

- EU should review the validity of its major policy goal of decreasing dependence on Russian gas. There is no evidence of such a threat. Diversification of the energy supply portfolio for the EU should result from market drivers and not from political drivers.
- It is not possible to create a true pan-European energy identity in a Machiavellian way by inflating a false threat.



## Conclusions (2)

- To my mind the closest analogy to the EU's behavior in this crisis is that of a renegade fireman who knows about a fire that is about to be set and either ignores it or tacitly approves because it is to his own individual benefit for there to be fires.
- In the Ukraine case, the EC either knew, or should have known, what Ukraine was planning and chose to look the other way, or possibly even tacitly approved it. EU activity to tackle the crisis nearly nonexistent before showed an exponent growth only when Ukraine reverted its pipelines and halted supplies to Europe on January 6th, 2009. It was too late.
- It is time for the EU to take its part of responsibility for the January 2009 transit crisis. This will help to restore the level of trust and make EU-Russia energy dialogue productive.



**THANK YOU FOR YOUR ATTENTION**