

Nord Stream 2 Is A Game Changer For Gazprom

Description



By [Viktor Katona](#) – Jan 21, 2018

It's difficult to imagine an energy company that's more hated and more closely monitored than Gazprom...

Perhaps in the aftermath of the Deepwater Horizon spill, BP attained similar levels of public oversight.

Nevertheless, defying most trends, 2017 will go down in history as one of Gazprom's successful years: for the first time in history, its share in Europe's gas consumption reportedly reached 40 percent.

Despite seemingly crippling U.S. sanctions specifically targeting Gazprom's European endeavors and the EU's hastily engineered gas rules, the construction of Nord Stream 2 has been going forward as planned, moreover, the project's European partners (Shell, Engie, OMV, Uniper, Wintershall) wholly fulfilled their financial obligations.

Gazprom increased gas sales to almost all its buyers in Europe. Germany's intake reached a historic maximum of 53.4 BCM (Nord Stream-I utilization rate was equally at an unseen high of 93 percent). Turkey took in 29 BCM (18 percent growth). France totaled 12.3 BCM (7 percent growth). A combination of cold weather, low price and shrinking domestic gas output in Europe led Gazprom to a spectacular increase in production, too — its year-on-year growth amounted to 52 BCM/year.

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Despite regularly occurring fakes that Gazprom is running short of gas, the gas giant is still keeping idle at 100-120 BCM/year of surplus production, mostly on the Yamal peninsula. So technically it can increase its supplies even further, but the real question is whether there will be sufficient demand to meet it.

Further dramatic Europe-bound increases are unlikely until Nord Stream 2 gets onstream. The next few winters might not be as cold as previous ones; oil-pegged gas prices start to appreciate and demand is constrained by existing supply routes. Still, once a pipe dream, now Nord Stream 2 increasingly stands out as Gazprom's future claim on further European consolidation. The European

Commission antitrust enquiry is effectively retracted from the DG Comp's agenda after Gazprom agreed not to object to cross-border sales of resold Russian gas and make destination clauses flexible.

The EU legal service's legal opinion on the applicability of the Third Gas Package to an offshore pipeline Nord Stream 2 (it found it was not) all but buried any future European Commission aspirations to block the project. The European Council chief, Donald Tusk, keeps on [urging member](#) states to adopt new EU gas rules which would specifically target maritime gas pipelines feeding the EU, however, Germany and France seem highly reluctant to go along with it. If the required legislation is not passed unilaterally before Nord Stream 2 is built (and its construction is already well underway and expected to be finished in 2019), Germany could treat the gas pipeline as a domestic matter, similarly to Nord Stream 1, and act without the EU's supervision.

Apart from a very few of staunch Gazprom opponents in the European Union, like Poland or Lithuania, most countries might ease their antagonism vis-à-vis Gazprom as the Ukraine-Russia gas conflict slowly disentangles (displays of solidarity are a must on European level). The Stockholm Arbitration Court's recent ruling, with both sides claiming victory, stipulates that Ukraine maintains a contractual take-or-pay obligation to buy at least 4 BCM/year and Gazprom ought to supply at least 5 BCM/year.

Despite a history of belligerent rhetoric throughout 2017 when Ukraine received no Russian gas from Gazprom (only reversed Russian gas resold from EU countries), the national company Naftogaz [indicated willingness](#) to start buying as soon as Q1 2018. This might be a bit too optimistic, considering the Stockholm Court is to deliver an opinion on another issue, the Gazprom-Naftogaz transit contract, however currently almost no one doubts this will happen after the court dealings are over. The underlying motive is quite simple: On average, Ukraine has been paying a premium of 25-30 dollars per MCM to European traders for remarketed Russian gas, roughly a \$35-40 million loss every month.

While the fate of Gazprom in Europe lies mostly in German hands, the company's eastward progress has been dramatic — often so swift that it was difficult to follow. Not only is the construction of the 38 BCM/year Power of Siberia-1 going according to schedule, the sides have already agreed on the day exports will begin: December 20, 2019. The Western route of China-bound supplies, the so-called 30 BCM/year Altay pipeline (also known as Power of Siberia 2) is still lingering around and further details about its future should be expected in Q2 2018 after the dust whipped up by the presidential elections has settled. While Power of Siberia-1 will be mostly sourced from Eastern Siberian fields in Sakha/Yakutia and Irkutsk Oblast, the proposed Power of Siberia-2 will be fed from the Yamal Peninsula up north. [Related: \\$70 Oil Cripples European Refiners](#)

Most recently, another potential Russo-Chinese gas project has popped up, namely the Sakhalin-Vladivostok-China pipeline with an estimated delivery volume of 8 BCM/year. Gazprom and the Chinese national company CNPC have signed an initial agreement on the issue (which doesn't mean anything because the crucial issue, as always, will boil down to pricing formulae), but doubts remain whether Gazprom will be able to provide the required gas volumes. The problem is 10 years ago the Sakhalin-I consortium — the only one so far capable of providing the gas (roughly equivalent of the Chayvo field's peak output) — tried to build a gas pipeline following a similar route; however, Gazprom vetoed it on the grounds that its exclusive monopoly on gas exports disallows other producers to sell their gas abroad.

So to sell additional volumes of gas to China, Gazprom would need the consent of the ExxonMobil-led consortium, which might not be as enthusiastic about the gas giant's prospects as they would like to

think (just think of Rosneft, whose gas output is widely expected to reach 100 BCm/year by 2020 and is desperate to break Gazprom's export monopoly).

The Ministry of Energy is pressurizing the Sakhalin-I consortium to find a consensual agreement with Gazprom, steering clear of any legislative changes, yet it will be a long and tough negotiations process. But with the gas export monopoly [confirmed](#) by authorities to remain fully in the hands of Gazprom, thinking big is not an eventuality but a must.

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