



# **The Russian strategy in a new gas context**

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## **The changing context**

1. The decrease of the Russian gas sells to Europe :  
-32% for the first 6 months of 2009/2008
2. The decrease of the Russian gas sells to the CEI :  
-54% for the first six months of 2009/2008
3. The decrease of the Russian gas demand : - 6%for  
the first six months of 2009/2008
4. The decrease of the European gas prices

## Changing context

- Russian gas production fell by 16 % in 2009 compared to 2008
  - Gazprom's exports fell by 21 % in 2009 compared to 2008
- => The Gazprom's share on the European market is only 25 %

# **Changing context : Some consequences for Russia and Gazprom**

The crisis has changed :

## **1. The short term outlook for Russian gas supply.**

We have a relative Russian gas oversupply :

- Gazprom has cut down its gas production forecasts until 2012
- Gazprom has reduced its investment programme :  
Bovanenko in 2012 ? Shotkman in 2016 for the gas pipeline and 2017 for the LNG ?

## **2. Now Gazprom's ability to supply gas to its European consumers (in volume) is not in question.**

# Gas production projections : Gazprom, Ministry of Economic Development

Gm <sup>3</sup>	2008	2010	2011	2012
<i>Gazprom</i>				
Hold	549	567	570	-
New	549	507	510	533
<i>Russia</i>				
Hold	664	647	660	675
New	664	623	630	649

## **Consequences on Gazprom's strategy : 1. European market remains the strategic market**

1. In the short term, the European gas market will remain the main gas export market for Gazprom
  2. The Gazprom's diversification strategy (in term of exports) is in question :
    - The export diversification to the USA is not a credible option in the context of the US gas market.
    - At the heart of the debate : the question of Shokman profitability
- « *The current LNG price in the US is not high enough to make the project feasible* »

*Y. Komarov, chief executive of the Shokman Development Company*

## **Consequences on Gazprom's strategies : 1. European market remains the strategic market**

### **3. Gas exports to Asia:**

In the short term, some constraints remain for a such diversification :

- Question of long term contract and the price indexation,
- Financial commitments for gas pipelines and development of new gas fields,

But some progress....Gazprom aims gas export to China (70 BCM) in 2014-2015 from fields in Western and East Siberia



## **Consequences on the Gazprom's strategy: 2.**

### **Downstream strategy , an answer to the liberalisation of the European gas market**

The aim: To preserve market share and price in a liberalised context

Until 2000, Gazprom's joint ventures with incumbent operators :

this industrial policy was based on cooperation between Gazprom and its traditional European clients, rather than on competition.

Since 2000, other organisational framework

marketing subsidiaries in certain European countries and/or buying minority or majority shares in local companies

=> A more competitive framework



## **Consequences on the Gazprom's strategy: 3. Preserve long term contract ...but**

Gazprom tries to preserve its long term contracts: ENI, OMV, E.On, GDF-Suez....

⇒ Links between growth of the Russian gas production and long term contracts with european sellers for the development of Yamal

**But a crucial challenge for Gazprom:** renegotiation of the long term contract to increase their flexibility: a spot price in the pricing formula ; a fall of minimum contracted volume.

# **Consequences on the Gazprom's strategy 4. « Assets against assets » versus the Energy Charter**

## **Russian policy: Security of Demand**

=>Access to Russian hydrocarbon resources for European companies in exchange of downstream integration for Russian companies

## **EU policy: Security of Supply**

=>Access to Russian hydrocarbon resources for European companies through Energy Charter Treaty (Application of EU legislation with legal systems of third states : « exports of acquis »)

## **Assets against Assets: BASF – Gazprom agreement**

The contract between BASF and Gazprom (2009) concerns the entire gas chain, covering exploration-production activities (in Russia) and transport and distribution (in Germany and certain other European countries).

- Wintershall (subsidiary of BASF) will receive a 25% stake minus one share in the Russian company Severneftegazprom which is developing the Yuzhno-Russkoye gas field (with expected production capacity of 25 Bcm by 2009).
- Gazprom will increase its share in Wingas from 35 to 50% minus one share. In addition, Wingas Europe, a 50/50 joint venture between Gazprom and BASF, is to be created to market Russian gas in Europe.

## **Consequences for the Gazprom's strategy: 5. Increase the number of gas pipelines to Europe**

Two main gas pipelines in the Gazprom's strategy

- NordStream
- SouthStream

The aims:

- Increasing the Russian gas exports to Europe
- Transit diversification=>increasing transit security
- For the South Stream : competing Nabucco

# « Paris et Moscou mènent une realpolitik de l'énergie », le Monde, 26 novembre 2009

