

Contemporary Issues in CEE-Russia Relations

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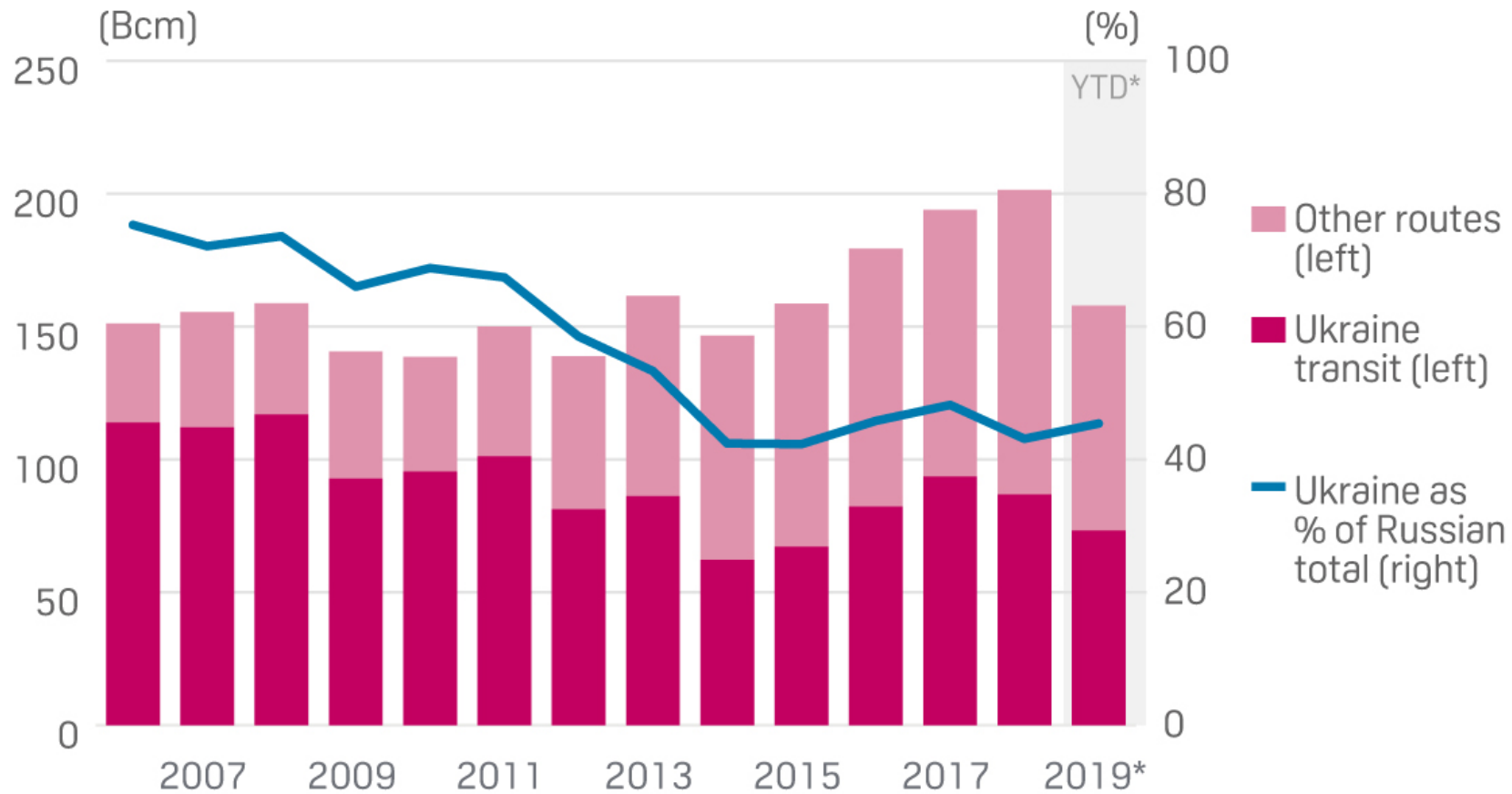
What's next for Ukraine?

- Transit role decline
- 2019 deal (2020-2024)
 - Worth 7 bn. USD
 - 65 bcma in 2020, 40 bcma 2021-2024
- 2020 sanctions under the NDAA 2020 (“must-pass”) bill
 - Sanctions triggered if UA transit declines more than 25% comp. to 2018 levels = equals the Naftogaz-Gazprom deal (coincidence?)
 - Generous timeframe
 - Still, Allseas pulled out
- Utilization of UA transit has been in steady decline
- Ukraine as the least preferred supply route
 - NS1, Yamal, TurkStream preferred

Nord Stream 2

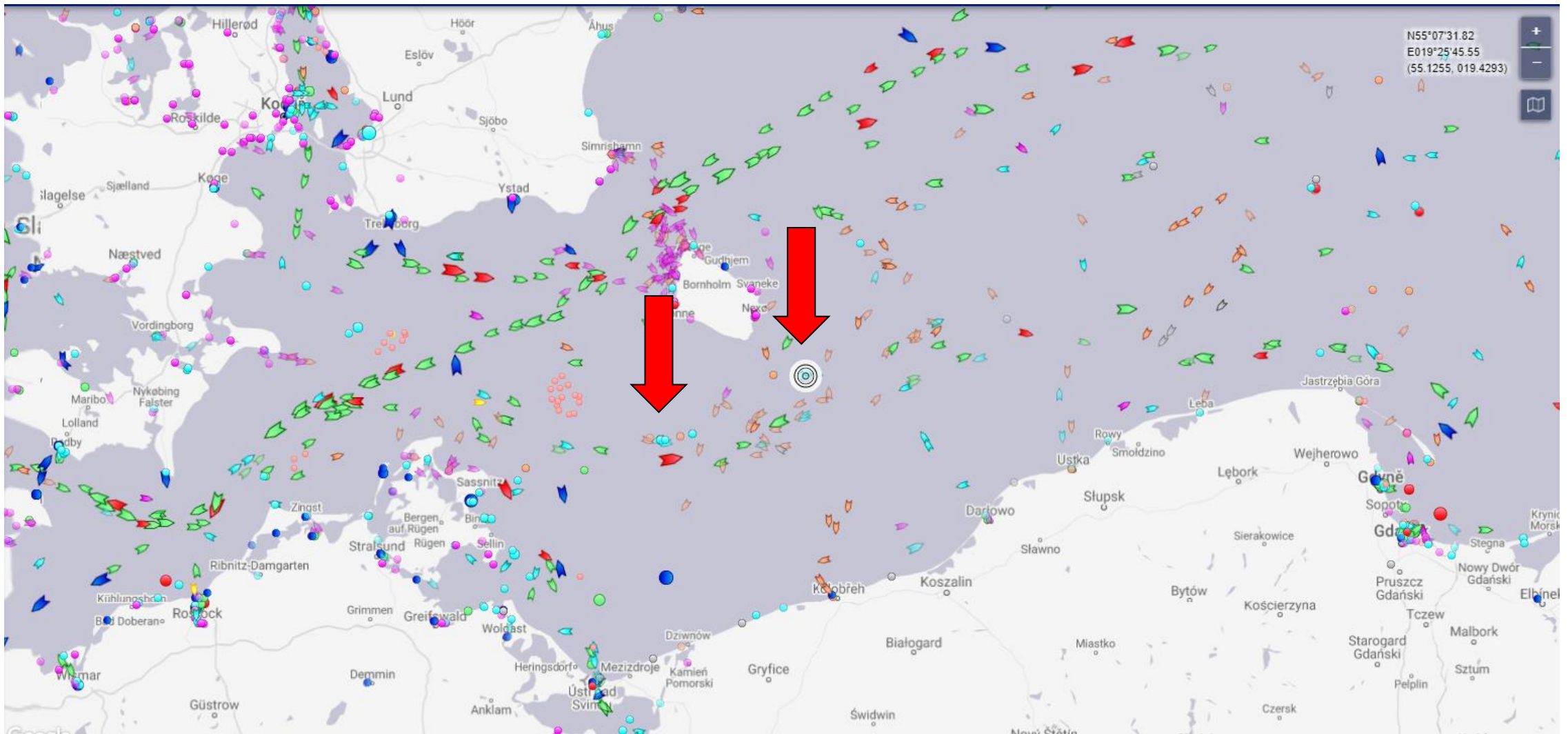
- NDAA (2020 & 2021)
 - bipartisan deals
 - NS2 sanctions aimed at personnel, companies active in pipe-laying, certification, insurance
 - extraterritoriality?
- Biden´s administration inherited the issue
 - Aims at mending US-EU/German relations
 - Amos Hochstein to become special envoy for NS2
 - To kill it or sit that out?

SHARE OF UKRAINIAN TRANSIT IN TOTAL RUSSIAN EXPORTS



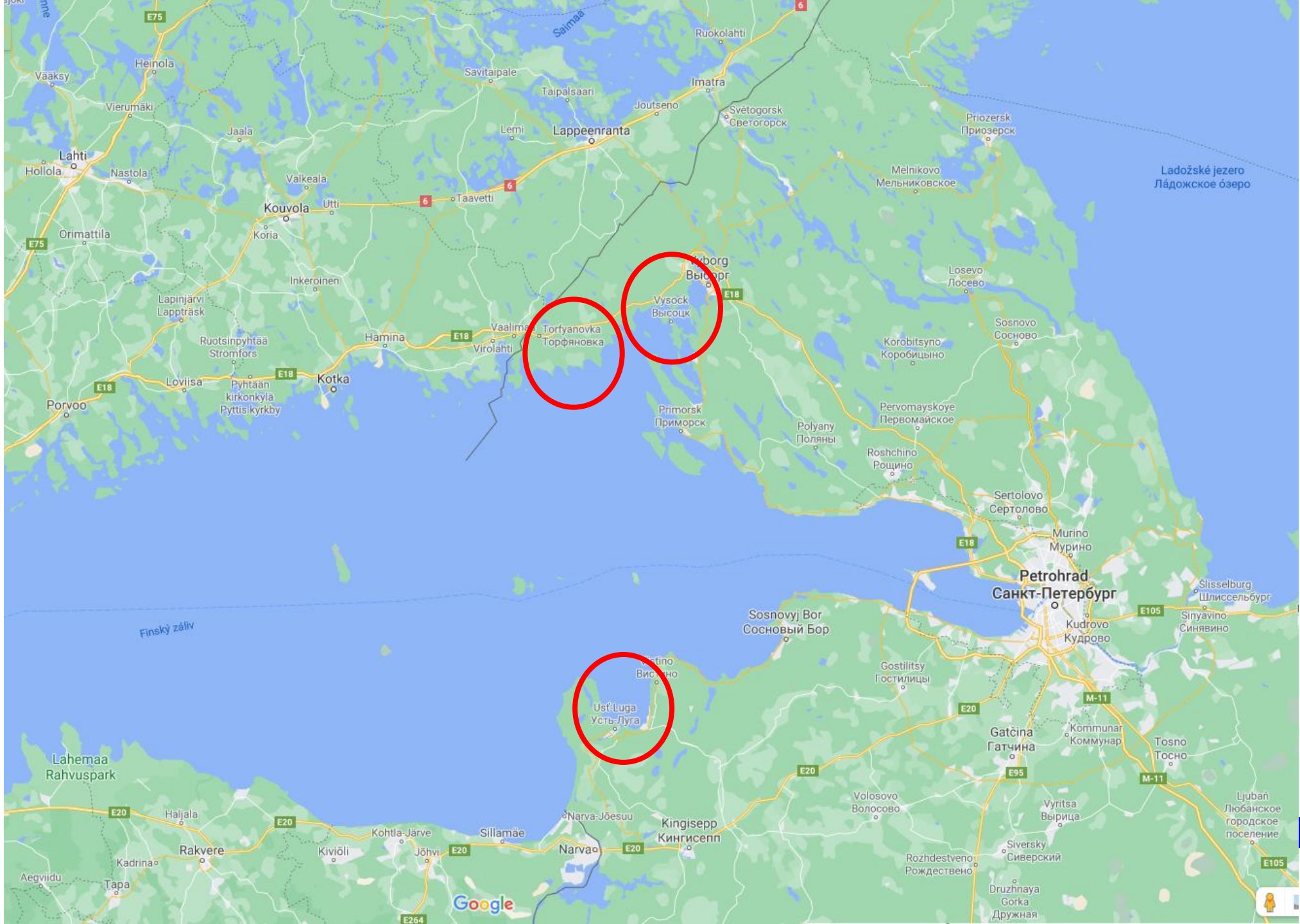
*To end October.

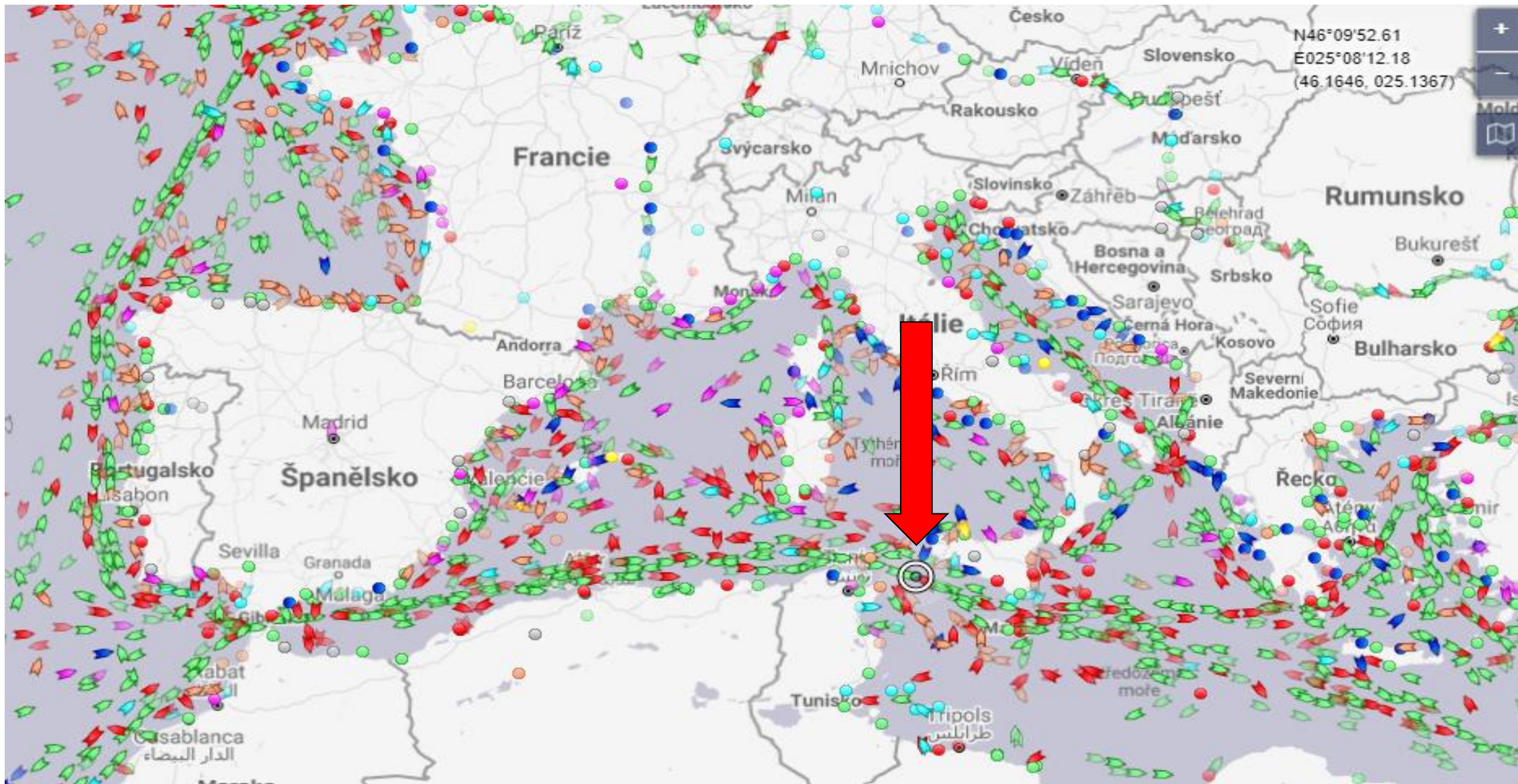
Source: S&P Global Platts Analytics, UkrTransGaz, Gazprom



Other Projects

- Gazprom's Baltic LNG (Ust Luga)
 - From 2023?
 - Up to 45 bcma of gas processing capacity (LNG, ethane, LPG)
- Gazprom's Portovaya LNG
- Gazprom's Kaliningrad LNG import terminal
 - put in operation in 2019
 - to curb dependence on LIT transit
 - Marshal Vasilevsky LNG FSRU currently serving as one of Gazprom's LNG tankers
 - Future utilization – 3,7 bcma?
- Novatek's Vysotsk (Vyborg) LNG terminal (2019)



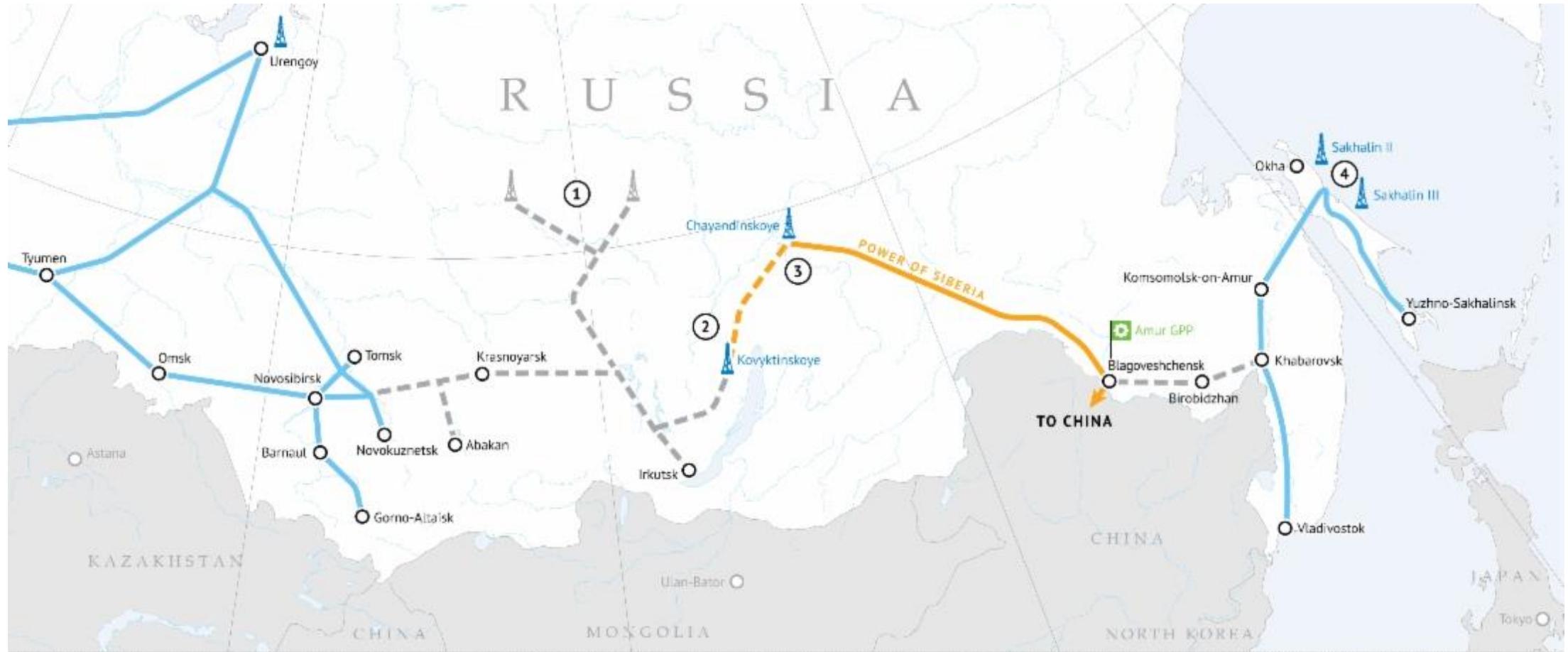


Gazprom's Export Position

- Gazprom to retain prime position in pipeline exports
- Novatek as the LNG export champion
- Russia to one of the global LNG export leaders by the end of decade
- Russian LNG supplies likely to be competitive on major LNG markets
- Gazprom's position
 - Russia – earns revenues in USD, invests in RUB
 - Sanctions undermining Russia's ability to open remote fields

Gazprom's Export Position

- For commercial and political reasons, Gazprom seeks new markets
- Pivot to Asia
- Different supply sources for Europe/Asia
- Chinese growing demand for gas as a result of coal phase-out
 - On China's terms?
 - Preferred route, new sources from East Siberia – safer option for China
 - Favourable pricing, strong China's position (buying "stranded gas") – possible renegotiation?



- Gas pipelines in operation
- Ongoing projects
- Prospective gas pipelines
- Gas production centers: 1 Krasnoyarsk
- Gas production centers: 2 Irkutsk
- Gas production centers: 3 Yakutia
- Gas production centers: 4 Sakhalin
- Fields

© December 24, 2019, Gazprom

Southern Gas Corridor

– TAP (1st phase)

- Put in operation in 2020
- 10 bcma (8 bcm ITA, 1 bcma GRE, 1 bcm BG)

– TAP (2nd phase)

- additional 10 bcma
- unlikely for a number of constraints
 - technical: high sulfur content in the Caspian hydrocarbon fields, need for developing the actual gas fields to feed the infrastructure
 - logistical: the remoteness of the area and the need to build the transport infrastructure increase the project's costs and the profitability threshold; to make the project worth the investments, new pipelines would need to be laid besides also the construction of new compressors
 - financial: the production and transport costs would make the gas relatively expensive, hindering its potential competitiveness
 - political: restrictive and commercially challenging environment possesses a substantial obstacle to foreign investments in Turkmenistan;

Southern gas Corridor

- Expected support for TAP's 2nd phase - Italy (declining N African sources)
 - CEE unlikely (insufficient demand)
 - May go to Turkey only (profitability of long distance pipelines)
 - Turkey's rising demand
 - Post-pandemic economic recovery?
 - EU's climate goals and the status of natural gas?
- Still unclear

EastMed

- Estimated throughput of 10 bcma, worth > 6 bn. EUR
 - certainly not a game-changer
- Politically-driven
- Economic viability?
 - missing demand (+ economic crunch), room for additional sources is shrinking
 - future of gas in EU?
 - high construction costs (1600 out of 1900 km in deep water)
- Disputes about exploration areas and maritime borders (GRE, CYP/N.CYP, TUR)
- TAP undermined EastMed's potential for S & SE
- Tightening competition (LNG, TurkStream)
- ITA as the key market in SE is saturated and possibly turning away from gas
- Relevant sources likely to go to Egypt and further to the Middle East



The Three-Seas Initiative

- Likely to help smaller projects, large-scale projects unrealistic
 - Viable financial model of an investment fund, guaranteed by states
- Proposed mainly by PL as a vehicle for its ambitions and counterbalance to Russia (and China)
 - In times of strained PL-EU relations (competing entity?)
- Supported by Trump’s administration as a counterbalance to Chinese influence
 - US support of up to 30% of the fund (up to 1 bn. USD)
 - Unlikely to increase under new administration – an “unwanted inheritance”
 - Still a fraction of the projects’ total costs

EU's Green Taxonomy

- A “roadmap” for assessing investments with a view to climate neutrality
 - Acknowledged projects are eligible for support and better financing conditions
 - Prevents greenwashing
- Categorization of natural gas and nuclear energy remains a question
 - Natural gas granted “transitional technology” status at the 2020 December EU summit
 - Support likely only in a mid-term outlook and rather limited (low CO2 threshold)
 - Decision on the role of natural gas and nuclear energy postponed (4/2021)
- Rising price of CO2 allowances

Impact on Russia's Position?

- The future of hydrocarbons is unclear
- In a mid-term outlook, we might see states phasing out hydrocarbons from their energy mixes
- Nuclear energy faces a twofold challenges
 - financial – new units possible with strong (state) financing only
 - environmental
 - green technology?
 - spent fuel storage?
- (Geo)Political aspects?