

Gazprom cannot do without Ukraine in 2020

Silvia Favasuli / London

Gazprom will not find sufficient capacity on alternative export routes to Europe before 2020, meaning it will have to sign a new deal with Naftogaz

GAZPROM SAID ON 2 March that it will not renew its Ukrainian transit contracts with Naftogaz Ukrainy when they expire in December 2019, but the reality is it will almost certainly have to do so, as no alternative routes will be available by then.

The Russian monopoly has been working on reducing its reliance on Ukraine's transport network for years. Its Nord Stream 2 pipeline will have a capacity of 55 billion cubic metres per year and will offer a new northern route across the Baltic Sea, while the second leg of Turkish Stream will provide a 15.75 bcm/y southern route across the Black Sea dedicated entirely to the European market.

However, the two new pipelines together will not have enough capacity to replace the Ukrainian route, and they will be available only from 2020.

Gazprom exported 193 bcm of gas to Europe in 2017. Of this, 93.3 bcm transited Ukraine – utilising about two-thirds of the route's capacity. And Gazprom expects to maintain its current export levels in the coming years, Deputy Chief Executive Alexander Medvedev said in January.

Nord Stream 2 is scheduled to be completed by December 2019. The possibility of Denmark banning the pipeline from crossing its territorial waters may delay the project by a few months, Paul Corcoran, chief executive of the Nord Stream 2 management company, told *Interfax Natural Gas Daily* in November. But even if Nord Stream 2 is completed on time, it will be unable to send its 55 bcm/y of capacity to Europe until EUGAL, the route's German onshore branch, is operational.

A spokesperson from Gascade – the company building EUGAL – told Russia's *Kommersant* newspaper on Tuesday that only one thread of the pipeline will be ready by the end of 2019, offering 34 bcm/y of capacity. The second leg will not be complete until the end of 2020.

Going south

Gazprom's southern route also shows little promise. The company still has to decide how to link Turkish Stream 2 into Europe's gas grid, and all the options face problems.

Gazprom has raised the possibility of linking Turkish Stream 2 to the Trans-Adriatic Pipeline (TAP), but TAP will become operational only in the first months of 2020 at the earliest. Furthermore, the first 10 bcm/y phase of TAP is dedicated entirely to transporting Azerbaijani gas from the Shah Deniz field. A link to Turkish Stream 2 would require the pipeline to be expanded to 20 bcm/y.

This expansion – envisaged as part of the second phase of TAP – will require the construction of two additional compressor stations. The work would take roughly two years from when the investment decision for the second phase was taken, a spokesperson from



Source: Gazprom

TAP Italy told *Interfax Natural Gas Daily*. "Even if Gazprom files the request now, it won't be ready before spring 2020," he said.

ITGI-Poseidon, another connecting option being considered by Gazprom, will not be ready before 2023, assuming it takes an FID in 2019 as expected.

Beyond these options, Gazprom's plan for a pipeline to run from Turkish Stream across Bulgaria, Serbia and Hungary to Austria's Baumgarten hub – dubbed 'South Stream Lite' – would likely encounter regulatory issues.

The new pipeline would need exemptions from EU regulatory requirements in terms of providing third-party access, the unbundling of Serbia's transmission system operator and the applicability of regulated prices.

According to Katja Yafimava, an analyst at the Oxford Institute for Energy Studies, the exemptions would need to be approved by the national regulators of the three countries involved and by the EU. "The European Commission would have the right to approve, amend, or reject the applications for exemption on [the] part of Bulgaria and Hungary, which are member states," Yafimava said.

The need for regulatory exemptions would likely be used by Brussels as a way to block the project and guarantee Kiev its vital transit fees, Maciej Jakubik, executive director of lobby group Central Europe Energy Partners, told *Interfax Natural Gas Daily*.

Gazprom may also look at existing or planned interconnectors across the Balkans, but the options available do not offer more than 5-6 bcm/y of capacity, meaning a shortfall would be inevitable.

Alternative existing routes for Russian gas into Europe – such as the Yamal pipeline, Nord Stream 1 or Blue Stream – are already operating at capacity.

Considering the obstacles it faces to alternative routes, it is highly likely Gazprom will be forced to negotiate a new transit contract with Naftogaz from 2020, at least until the extra capacity via the northern and southern routes is ready.

GAZPROM EXPORT ROUTES TO EUROPE

— Existing
— Under construction
⋯ Planned

*Indicative map only - not to scale



Pipeline	Russia-Europe capacity	Online/due
1 Nord Stream 1	55 bcm/y	Online
2 Nord Stream 2	55 bcm/y	2019
3 Yamal pipeline	33 bcm/y	Online
4 OPAL	36.5 bcm/y	Online
5 EUGAL	55 bcm/y	Delayed until 2020
6 Ukraine route	140 bcm/y	Online
7 Trans-Balkan pipeline	14 bcm/y	Online
8 Interconnector Bulgaria-Serbia-Hungary (South Stream Lite)	–	October 2019
9 Interconnector Greece-Bulgaria	3-5 bcm/y	2020
10 Interconnector Bulgaria-Serbia	1.8-4.5 bcm/y	2020
11 Turkish Stream 2	15.75 bcm/y	2019
12 Blue Stream	16 bcm/y	Online
13 TAP	10-20 bcm/y	Early 2020
14 ITGI-Poseidon	20 bcm/y	FID in 2019