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Russian Gas to Flow Despite US Sanctions

US President Donald Trump signed into law on Aug. 2 a fresh round of sanctions targeting foreign investment in new Russian export pipelines and partnerships in international energy projects in which Russian companies own 33% or more. But despite claims from angry German and Austrian officials that the bill could affect European security of supply, no expert in Europe or Russia consulted by *World Gas Intelligence* considers Russian natural gas shipments to Europe to be at risk over the short term — although they're less sure about the medium term.

Top EU officials were left fuming when the US Senate and House of Representatives approved the legislation in June and July (WGI Aug.2'17). By the time Trump signed the bill, it had been watered down: The pipeline sanctions will be optional and executed "in coordination" with US allies. European Commission President Jean-Claude Juncker professed himself "satisfied" — albeit with reservations — but Germany and Austria, the legislation's fiercest critics, weren't mollified. A spokesperson for the German economics and energy ministry said Berlin believes the sanctions are against international law because they target foreign companies acting outside the US and don't affect the US in any way. The ministry said it is happy that US Secretary of State Rex Tillerson is willing to consult with Europe, but expects an "appropriate response" from Brussels if the extraterritorial sanctions are imposed.

The bill targets new oil and gas pipelines, so could potentially affect the 55 billion cubic meter per year (5.3 billion cubic feet per day) Nord Stream 2 and 31.5 Bcm/yr Turk Stream. But many observers consider the projects too advanced to be halted altogether. Even if they were, that would unlikely slow the Russian export ramp-up that allowed it to take 34% of the European gas market last year. Gazprom will continue to have access to gas transit corridors through Poland and Ukraine at least until their long-term supply contracts expire in the early 2020s. It can also use the existing 55 Bcm/yr Nord Stream pipe to Germany, where a European court last month lifted restrictions on throughput through the German Opal onshore section (WGI Jul.26'17). "The extra Opal capacity alone provides Gazprom access to 90% of the capacity of the Opal pipeline for the first year of the ruling, providing the firm the opportunity to increase flows to a maximum of 32.4 Bcm/y, or 9.7 Bcm more compared with the 22.6 Bcm delivered through Opal from August 2016-July 2017," said global gas analyst Jane Rangel at consultancy Energy Aspects. She said Opal flows have already increased.

Still, the sanctions add a further element of risk to an already volatile geopolitical mix. Their duration is unknown; European sanctions are reviewed periodically, but Katja Yafimava, senior research fellow at the Oxford Institute for Energy Studies, believes the US measures will remain in place into the 2020s and possibly beyond. "Any prediction would be similar to predicting the results of the Argentinean and Russian soccer teams in the forthcoming 2018 World Cup," former Russian energy minister Igor Yusufov, the founder of energy investor Fund Energy, told WGI. Their removal will require approval from the US Congress, which strongly backs the measures.

The legislation's open-ended nature means sanctions could potentially affect Russian supply over the medium term. One worrying aspect is the ban on foreign investment in the maintenance, modernization or repair of existing pipelines, which could hit European service firms. Nord Stream, for example, uses Italy's Saipem as its main repair contractor and is part of the Statoil-led Pipeline Repair and Subsea Intervention Pool, which gives Nord Stream access to specialized services and equipment that could be targeted by sanctions. A Gazprom source said the annual maintenance bill for existing pipelines is relatively low, so the company could assume the financial burden itself. In an international project such as Nord Stream, the source said maintenance is funded by the Switzerland-based Nord Stream AG

(continued on page 2)

Gazprom Export Pipelines

Existing	Capacity (Bcm/yr)	Route	Partners	Opening date	Length (km)
Yamal Europe/ Northern Lights	33.0	Through Belarus and Poland to Germany	Gazprom, Europolgaz	Full capacity 2006	2,000
Nord Stream	55.0	Baltic Sea to Germany	Gazprom, Wintershall, Uniper, Gasunie, Engie	2011-12	1,224
Blue Stream	16.0	Black Sea to Turkey	Gazprom, Eni, Botas	2002	1,213
Soyuz/ Brotherhood	150.0 combined	Ukraine to Europe	Gazprom, Ukrtransgaz	1984	4,500
Trans-Balkan	16.0	Romania and Bulgaria to Turkey	Gazprom, Transgaz, Bulgartransgaz	1987	
Proposed/Underway					
Nord Stream 2	55.0	Baltic Sea to Germany	Gazprom, Shell, Engie, OMW, Uniper, Wintershall	Late 2019	1,200
Turk Stream	31.5	Turkey, Europe	Gazprom, Botas	2019	900 (to Turkey)
Power of Siberia	38.0	China	Gazprom, CNPC	2019	3,000

Source: Gazprom, WGI

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Russian Gas to Flow Despite US Sanctions *(continued from 1)*

operating company. As this raises money from transportation services, not European partners or shareholder loans, it could escape sanctions. "For loans, additional risk premiums could be required, but for maintenance, [we] do not expect major complications because those are routine operations ... on European territory," Yusufov said.

LNG projects have hitherto been immune, but could get dragged in by sanctions against upstream projects or pipelines planned to feed new liquefaction plants involving foreign companies (p3). In 2015, the US introduced sanctions against the Yuzhno-Kirinskoye gas field in Russia's Far East, originally intended to supply the third train at Russia's sole operating LNG plant, Sakhalin-2, whose shareholders are Gazprom with 50% plus one share, Royal Dutch Shell with 27.5% minus one share, Mitsui with 12.5% and Mitsubishi with 10%. "The future of this project will depend on the position of the members of the consortium," Yusufov said. In June, Shell signed a heads of agreement with Gazprom to secure financing to design, build and develop the 10 million ton/yr Baltic LNG project in Ust-Luga. Total owns 20% of Russian independent Novatek's Yamal LNG and has been in talks to join its planned Arctic LNG-2 project; the French major also owns 20% of Novatek. Exxon Mobil has a 30% stake in the Sakhalin-1 production-sharing agreement with state-controlled Rosneft whose gas could either be used for a greenfield LNG project or the Sakhalin-2 expansion. ■

Jaime Concha, Copenhagen, and Vitaly Sokolov
and Nelli Sharushkina, Moscow

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