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CEE: Russian gas, security of supply & internal market

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Popular diagnosis of CEE-Russia gas relations

- CEE countries face similar risks
- BUT respond differently to these risks

- **What can we learn and say about that basing on current events?**

Current challenges to CEE security of gas supply

- Decreased Russian gas supplies to PL, SK, AT (& RO)
- Decreased Russian gas transit volumes via Ukraine – Slovakia route

- As for now those problems do not affect other countries of the region (HU, BG, CZ nor Baltic states) and do not seem to spill further West or South in Europe. So present challanges to SoS remain regionally concentrated although do not concern all CEE countries

CEE problems with Russian gas - context

- ‘Reverse’ flow gas supplies to Ukraine via PL, HU & SK (latest one, the biggest, opened on Sept. 2nd) by EU companies
- Naftogaz declaration of intentiont to buy gas on CEGH (from 5th Sept)
- Intense Russian lobbying for full TPA exemption for OPAL gas pipeline (EC was supposed to decide on that on Sept 15th but postponed till end October) & easing conditions for South Stream gas project construction
- Approaching trilateral EU-Ukrane-Russia gas talks (Sept 26th)

Poland’s problems with Russian gas

- Lower than ordered Russian gas supplies to PGNiG via Ukraine & Belarus since 8 Sept. (no official explanation, no earlier warning)
- Decreases of ~20% with record decrease 45% on 10 Sept.
- Supplementary gas imports via connections with Germany (Lasow, Mallnow) and Czech Rep. (Cieszyn) launched
- Partial reorganisation of gas flows to and within Polish gas system led to temporary (2 days) halt by Polish TSO of ‘reverse’ gas supplies to Ukraine (resterted on Sept 12th)

Slovakia's problems with Russian gas

- Lower than ordered Russian gas supplies to SPP via Ukraine since Sept. 10th (no official explanation, no earlier warning)
- Decreases range from 10 to 25%
- Decreasing Russian gas transit volumes entering SK fr UKR via Velke Kapusany:
  - Transit now ~18% lower than in early Sept
  - transit in Sept 2014 ~70% lower than in Sept 2013
- Paralelly increasing gas flow from Czech Rep via Lanzhot entry point:
  - now ~40% higher than in early Sept
  - almost 8x higher in Sept 2014 compared with Sept 2013
  - not much spare capacity left
- Decrease in gas supplies and changes in gas flows did not affect – as for now – 'reverse' gas flows to Ukraine
- Slovak transit role decreasing: SK transit in Sept. 2014 at +/- constant level BUT 31% lower than in 2013

Austria's problems with Russian gas

- Information on decreases by Austrial regulator e-Control since Sept 11th
- OMV reportedly was warned about possibility of lower supplies
- Last Monday statement that Russian gas supplies lower up to 25% than ordered volumes, which goes beyond normal fluctuation and is subject to talks of companies affected with Gazprom
- different EU companies buy/receive Russian gas at Baumgarten inter alia E.on, ENI & GdF (all involved in gas exports to Ukraine)

Direct implications for CEE

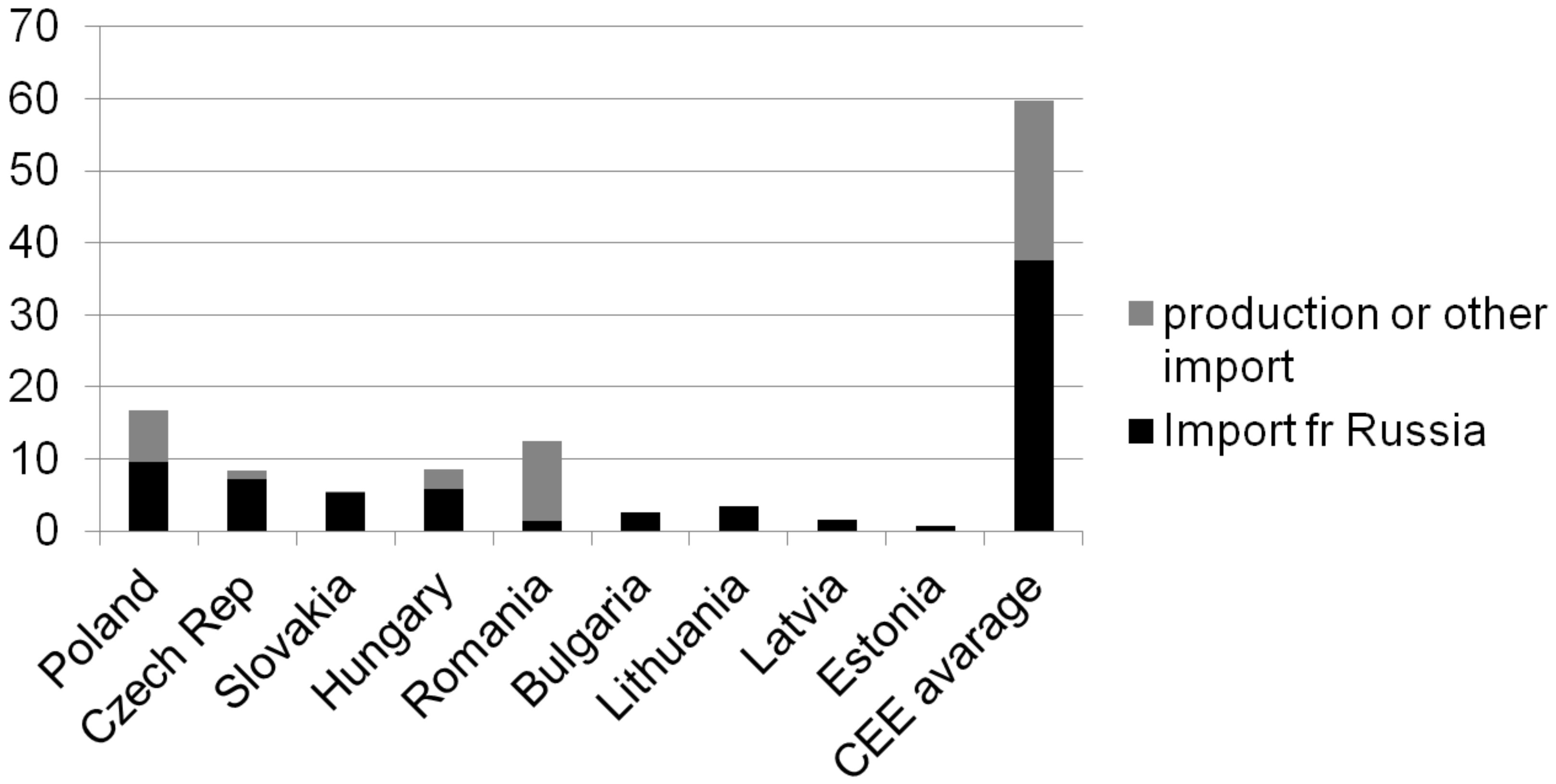
- Not much in real terms (storage full, gas for supplementary supplies from West available at relatively low price)
- Complication to functioning of internal gas systems:
  - alternative supplies needed,
  - partial reorganization of gas flows – especially important for SK
  - decreased capacities of interconnectors with Western neighbours
  - possibly lower pressure in some pipelines (SK)
- Increased uncertainity – about stability & volumes of future supplies, reasons behind Gazprom’s behavior, approaching winter

Possible reasons behind these cuts

- Making more difficult reverse flow gas exports to Ukraine (less gas available eg in Baumgarten, higher prices)
- Stress test for political and market consequences of such actions before winter
- 'Punishing' countries engaged in reverse gas supplies to UKR and not cooperative in other fields (HU is an exeption here BUT it is cooperative when it comes to SS or storage)
- Warning that Russia is ready to go forward with decreasing/cutting gas supplies if its key interests with regard to gas relations with EU/Ukraine are not met
- Continued (maybe speeded up) strategy of diminishing Russian gas transit via Ukraine & redirecting it to alternative routes which directly influences gas flows in CEE and transit role of specific states (SK vs CZ)

What does it remind us about CEE dependency on Russian gas

- High CEE dependency on Russian gas imports & on transit via Ukraine



What does it remind us about CEE dependency on Russian gas

- Availability of alternative gas supplies to CEE depends on several factors:
  - **Capacities of interconnectors/reverse flows**: i. despite the progress that has been made since 2009 still insufficient integration within the region and with the EU; ii. Significant differences among CEE countries – relativelly best situation of Czech Rep. & worst of Bulgaria and Baltic states
  - **overall volumes of gas available in the EU** (CEE buy presently *de facto* Russian gas from Western companies)
  - **Spare capacities for non-Russian imports**, especially in the case of visible redirecting by Gazprom Russian gas flows from Ukrainian route eg to Nord Stream & OPAL: some interconnectors CEE-West may be filled with Gazprom supplies of gas for CEE customers from Western direction – which decreases diversification options (eg SK Lanzhot)

What does it remind us about CEE dependency on Russian gas

- prices of alternative gas supplies also to some extent depend on Gazprom’s activity (less Russian gas on CEGH > higher prices;)
- still lack of big source of alternative gas supplies in the region (awaiting LNG terminals, failure of Nabucco), problems to enable it (competition from Gazprom strongly present of the market see EU antitrust case)
- in such circumstances Russian decisions with regard to its gas flows (supplies/transit) may influence specific countries or even whole CEE gas market development:

Decreased flows/reduced transit AND lack of significant alternative gas supplies/transit in CEE = decreased physical flows of gas in CEE => smaller incentives for developing a genuine gas trading place in CEE/reduced CEE role within the EU gas market

What does it remind us about CEE dependency on Russian gas

- lack of trust between sides or recognized by both sides code of conduct
- fact of opening reverse gas flows to Ukraine (by PL, HU & SK) had most probably worsened this relations

What lessons can CEE & EU draw from it

- CEE remains highly vulnerable region to disruptions/cuts of Russian gas supplies
- Due to geographical location & interlinked gas networks (export pipelines) such disruptions could affect CEE countries to some extend irrespectively to their energy policy towards Russia (HU today's situation different due to its policy <u>and</u> geographical location)
- CEE as for now remains crucial for enabling at least some part of alternative gas supplies to Ukraine and so for the feasibility of EU policy of assisting Ukraine in its gas problems and/or for enabling gas export to Ukraine by EU companies (E.on, ENI, GdF, RWE)
- This increases CEE exposure to problems in its gas/energy relations with Russia

What lessons can CEE & EU draw from it

- Similarly some CEE/Balkan states remain key for the future of South Stream gas pipeline project: and so are caught in between Russian lobbying & pressure & EU's expectations & rule of internal market law. (HU, BG)
- If there is to be a unity and consistency within the EU when it comes to energy policy towards Russia, big export gas pipelines and gas relations with Ukraine it requires special EU focus on / policy answer to this CEE challenge: both in short term perspective (CEE focused emergency plan ahead of winter) and longer term one

What lessons can CEE & EU draw from it

- In the light of EU goal to complete internal gas market and with regard to the SoS concerns Russian ability to influence CEE market situation requires special attention.
- Completing EC antitrust proceedings regarding Gazprom activity in CEE a good starting point.
- Another elements needed including: rethinking of diversification options (including longer term impact on regional market development) and instruments to enhance them on specific countries, regional and EU level

Summing up

- Current problems with Russian gas supplies make more evident exposure of CEE as a region to this kind of risks
- It also makes apparent differences of CEE in their exposure: some countries seem less vulnerable due to their gas market development (Czech Rep) or current energy policy towards Russia & location within EU gas system (Hungary)
- CEE remains caught between EU & Russia policy goals and expectations but also in its own dillemmas regarding ST & LT challenges and policy choices
- CEE remains crucial for integrity of EU current gas policy towards Ukraine and Russia, so some kind of special approach seems needed

Thank you for attention

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