

Future Supply Options for Europe: 'Turkish Stream' vs. Nord Stream-2?

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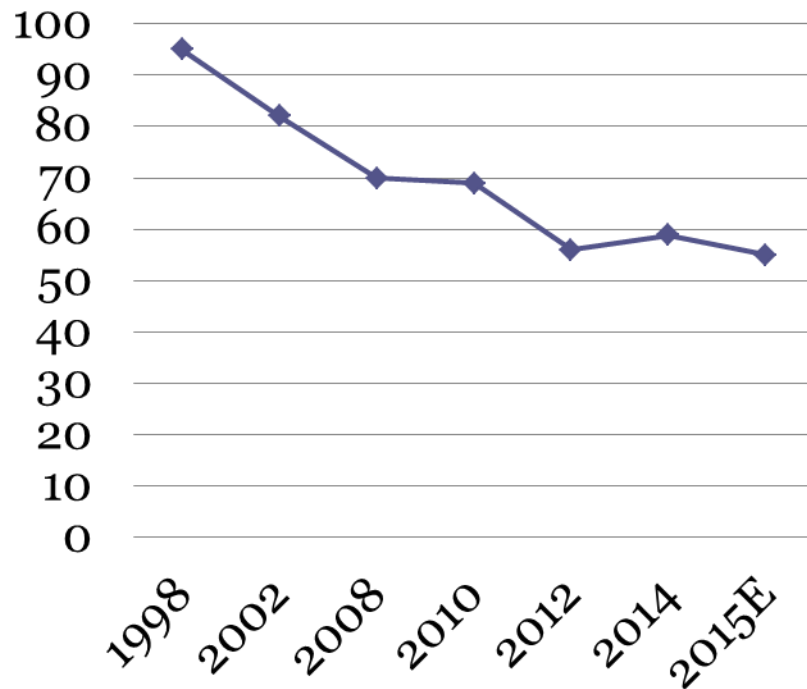
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Transit avoidance: Strategic Goal of Russian Energy Policy?

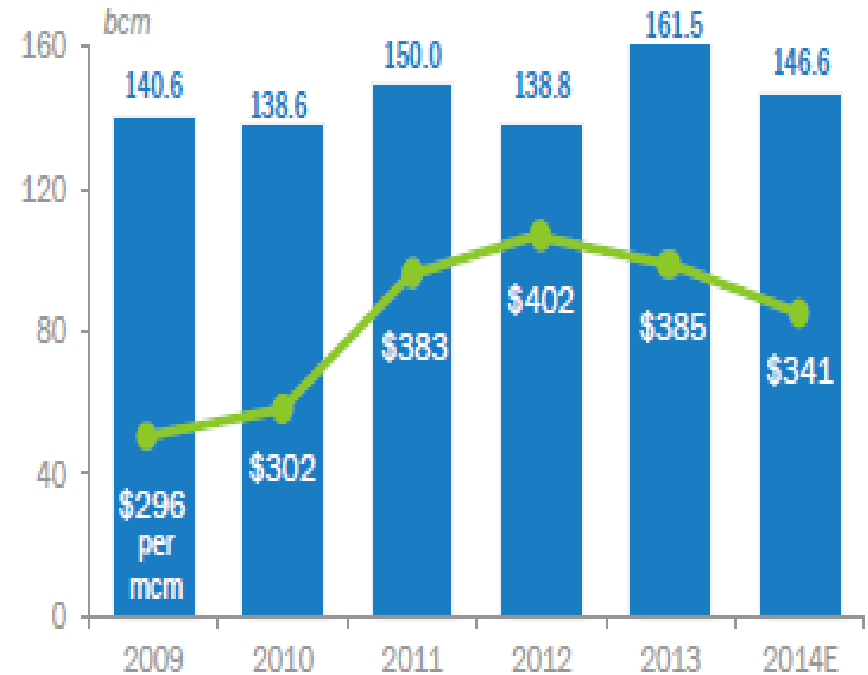
- **2005 Kazan CIS Summit:** a watershed in modern Russian energy policy, aim – transit avoidance, direct pipeline links with Russia's key economic and political counterparts (Germany, Turkey, China) plus asset swaps.
- **Oil:** BPS – 1/BPS – 2 (both operational as of 2012) for the Baltic Sea route.
- **Natural gas:** 'Blue Stream' (operational as of 2003) to Turkey, 'Nord Stream' (2011, 2012) to Germany.
- **'South Stream', 'Turkish Stream', 'Nord Stream-2':** continuation of the same logic.
- **Conclusion:** delays to be expected, not the strategy shift.

Ukraine's transit: major challenge for Gazprom/Russia?

Transit of Russian Gas via Ukraine (bcm)

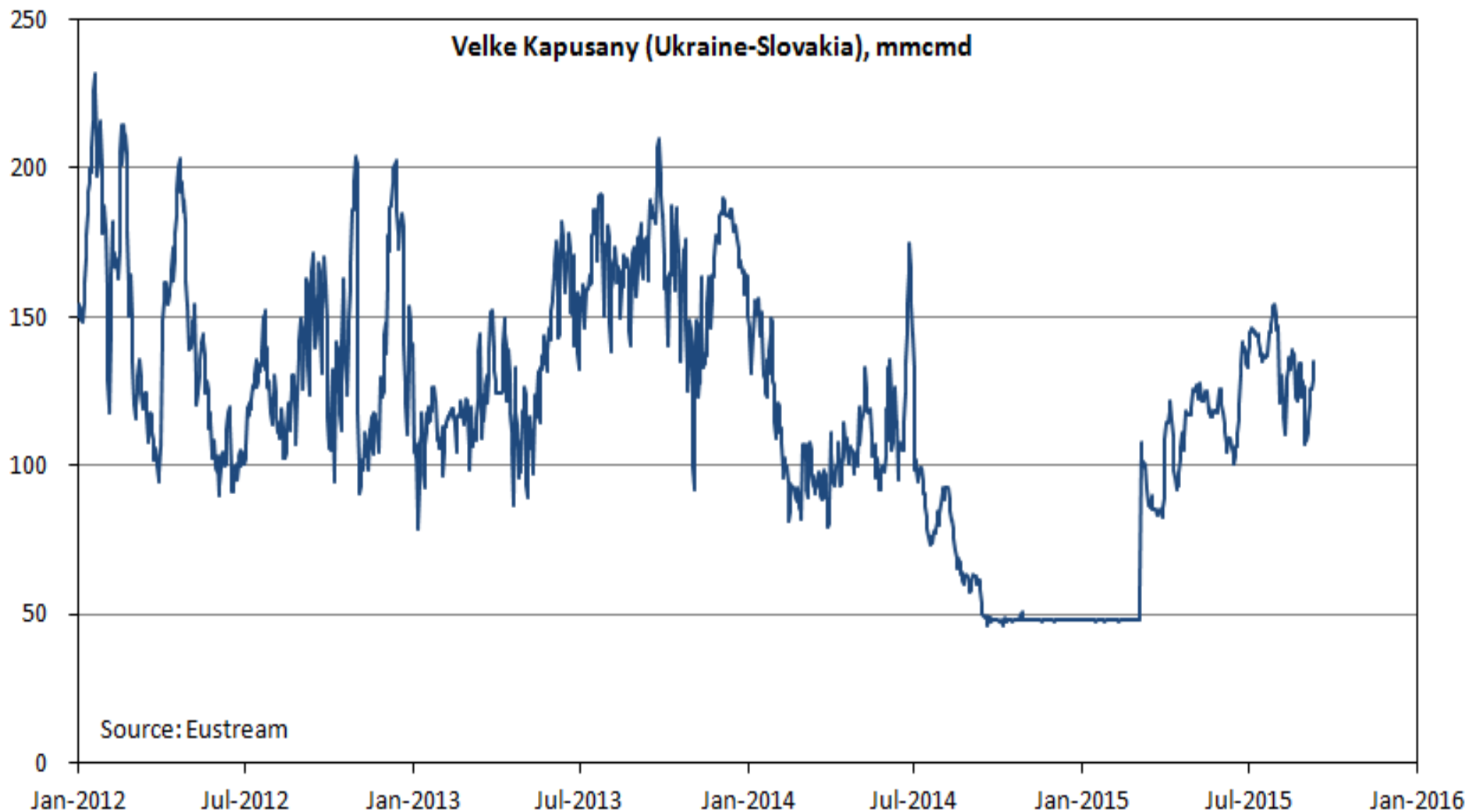


Gazprom Gas Deliveries to Europe¹

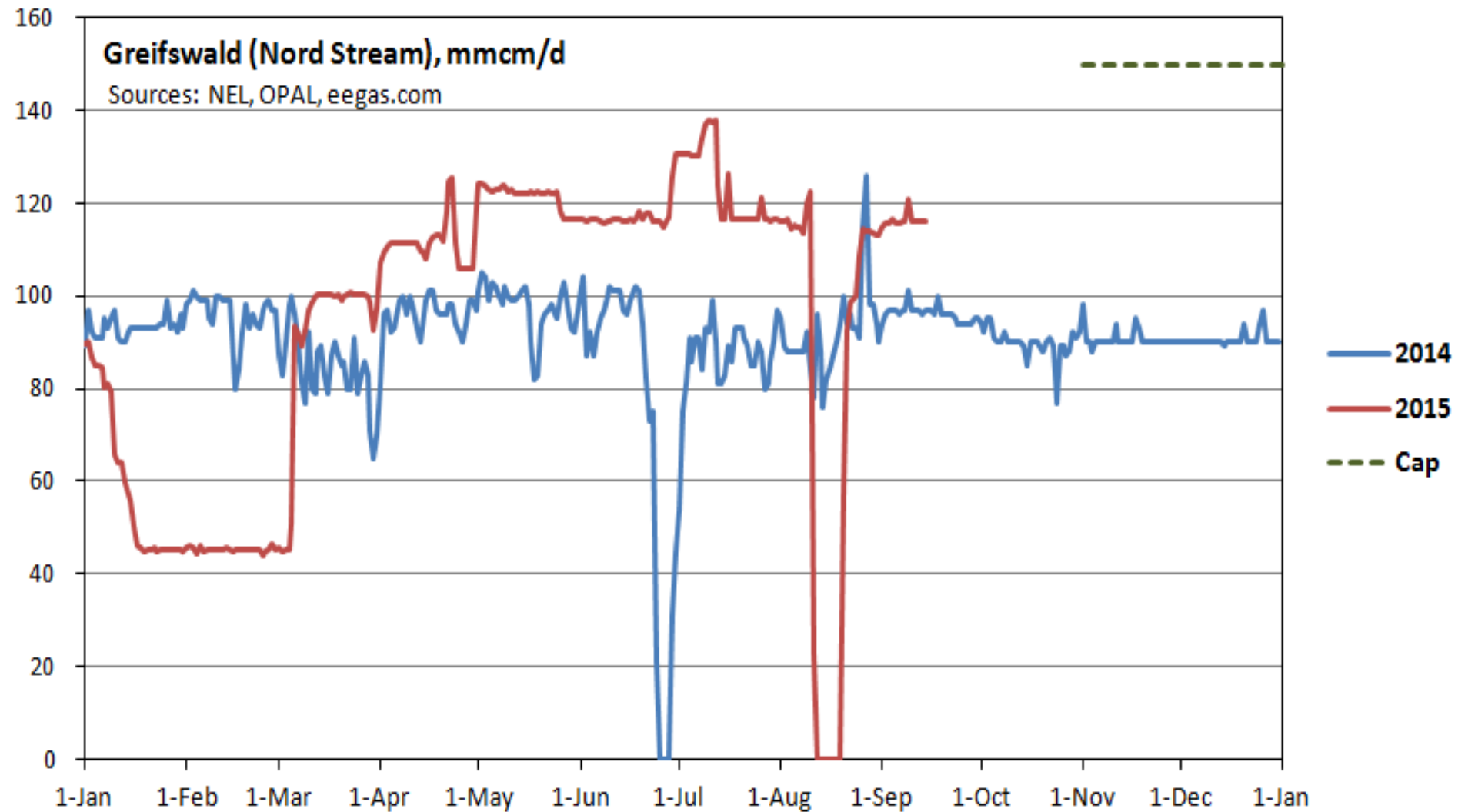


(c) Gazprom, Ukrtransgaz, Ukraine's MoE

‘Slovakia transit’ (2012 - 2015): main ‘westward route’ for Russian gas in Ukraine



'Nord Stream' gas flow



RUSSIAN 'SOUTHERN CORRIDOR'

- Domestic Gazprom's infrastructure aimed at feeding 'Turkish Stream'/'South Stream' ('western' & 'eastern' routes, 32+32 bcm). CAPEX increase by 50 % to 715 billion RUB/\$21.7 billion (fall 2013), 300 billion RUB spent by 2015, 278 billion RUB to be spent in 2015?
- Inflation vs. 'devaluation effect'. **pipes' prices up 8 % between 07/2014 and 03/2015** and 21 % CAPEX priced in foreign currency (Gazprom's CFO A. Kruglov) - foreign currency up 90 % in 2011 - 15.
- 'Western route' (phase 1) partly completed, 'eastern route' (phase 2) suspended as of 07/15.
- **New maximal capacity (32 bcma) for the Turkish Stream?**



Turkish Stream - 'light version'?

- Initial goal: adapt 'South Stream' to EU's new regulatory realities, access new markets.
- Potential markets and future gas dynamics uncertain.
- Price dispute with Turkey, no breakthrough in negotiations with Brussels, 'open season' on TAP only for the limited volumes. Turkish Stream – 1 (15.75 bcm)=consumption of Greece (1.745 bcm, 2014) plus 'western route' deliveries to Turkey!

Ankara and the Turkish Stream

- Abundance of non-Russian gas supplies in the nearest future (KRG, Iran, Azerbaijan, LNG, East Med). ***Bargaining power up!***
- Growth at 2.9 % (2015E), below the government's target of 4 %.
- Internal prices stayed stable despite TL depreciation (day ahead ~\$253/Mcm, 15.09.15)
- Weak lira added \$3.8 bln to Turkish natural gas bill in 2015, Russian gas flows down by 8 %
(Taner Yildiz, 19.08.15)

European 'Southern Corridor'

- TANAP/TAP-1 are OK. PSA/gas liquids at Shah Deniz-2 guarantee the profitability.
- Gazprom can use EU rules and call 'open season' for the TAP-2, will it get all 10 bcm?
- Reverse flow on trans-Balkan pipeline?
- Gazprom gas is cheap (OPEX ~\$25/mcm, transportation costs~\$1/mcm/100 km).
- Apsheron (350 bcm, 5 bcm by 2023-24); Azeri-Chirag-Guneshli deep (300-500 bcm, 5 – 10 bcm of plateau production) and other fields.

New European Pipeline AG

- **Goal:** additional link to Germany (40.3 bcm in 2014), direct link to Italy (21.7 bcm), shift 'transit rent' away from Ukraine & Slovakia?
- **Strong points:** influential shareholders (E.ON, Shell, OMV, BASF/Wintershall, ENGIE); affordable price (Gazprom's European average - \$240/mcm 2015E); new argument for OPAL.
- **Gazpromexport's auction** – 48 lots sold (37 – NEL, 10 - Olbernhau II, only one at Greifswald OPAL.

External Challenges for Nord Stream- 2 and ‘Turkish Stream’

- ***High CAPEX in times of trouble.***
- ***Access to onshore infrastructure in the EU.***
- ***Gas demand in Europe: 2030 efficiency target up to 30 %, share of gas down to 21 %?***
- ***New Strategy Package:*** “We’re seeking diversification of gas,” not more gas (Cañete)