

Centre Energie - Centre for Energy

The future of gas in the EU: the Russia-Ukraine gas issue matters



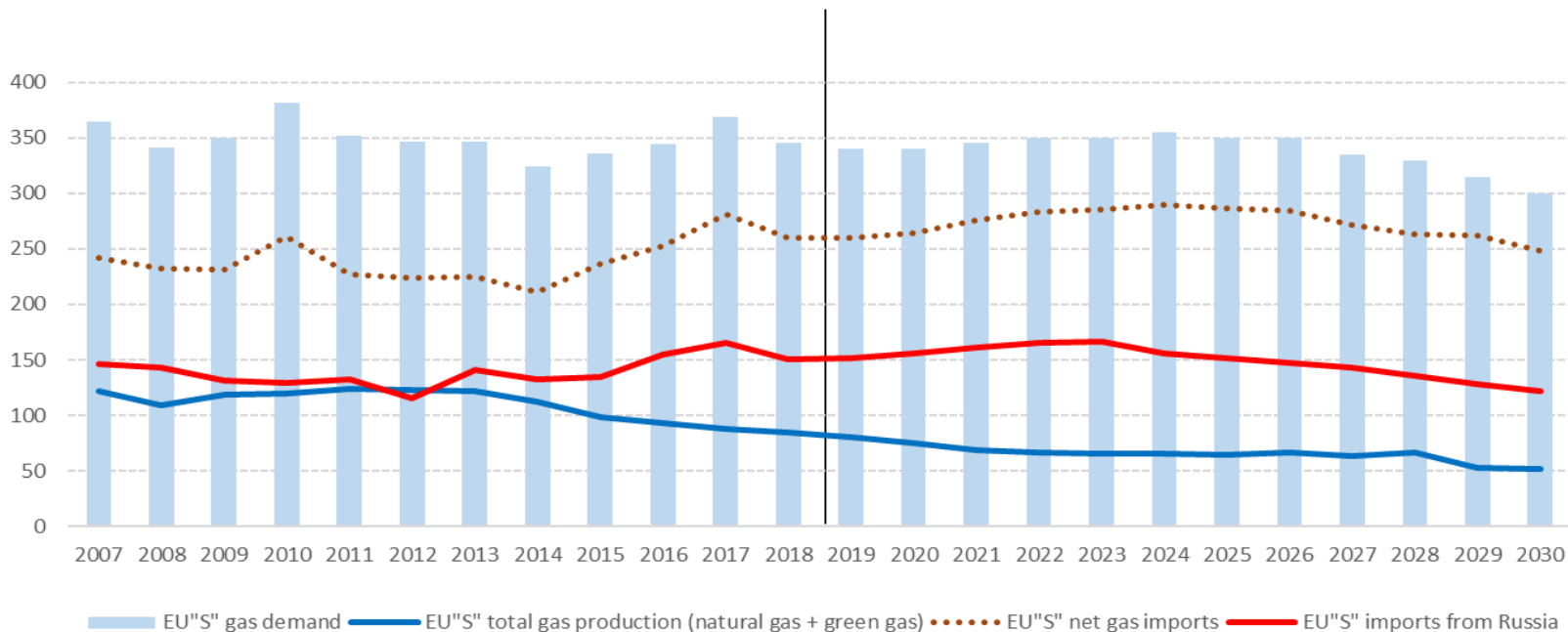
Marc-Antoine Eyl-Mazzega

Director,

AFG Convention, Paris, 12/03/2019

Demand and import outlook to 2030: Russian pipeline exports robust until 2023, then declining to 2015 level

Evolution of EU S gas balances, selection of indicators, 2007-2030^e (bcm)

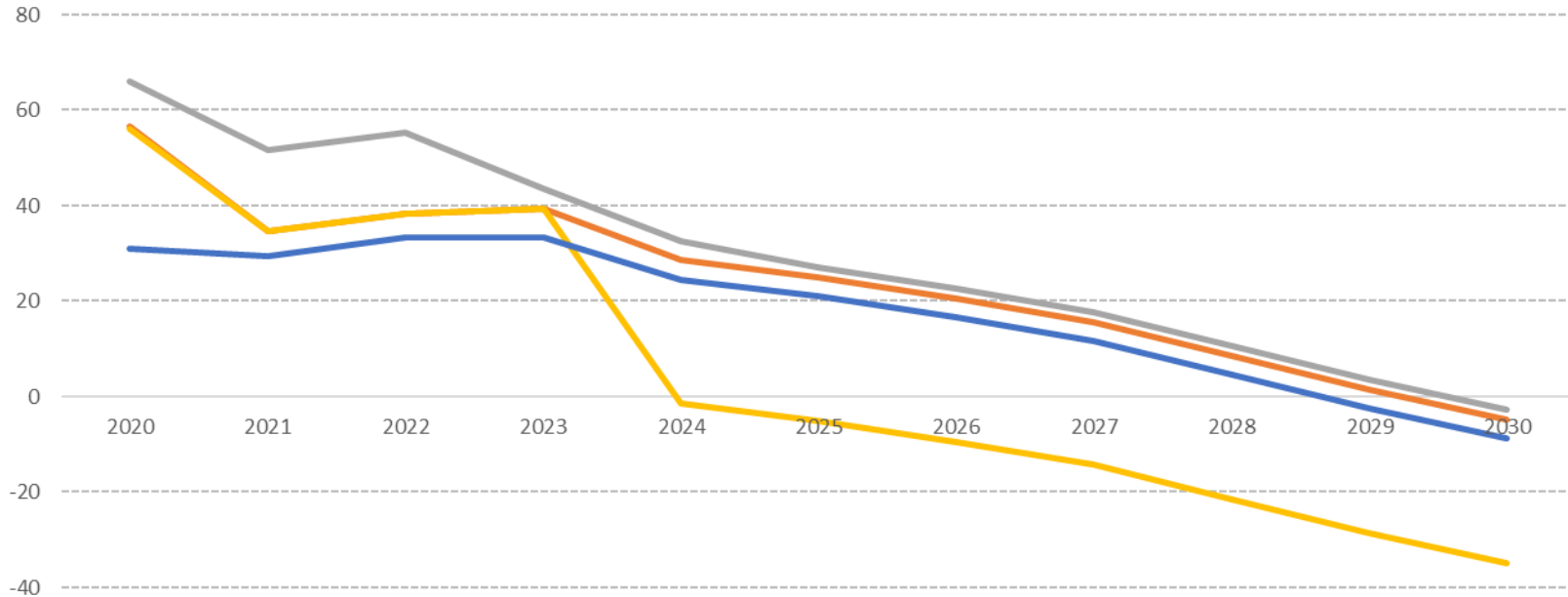


EU S gas demand seen steady until 2026 around 2016 levels following the partial coal/nuclear exits in DE, before declining progressively as the transition deepens. Gas import levels increase yet at moderate pace.

Source: Ifri

Ukraine transit: fall to 0 in all scenarios, but with variations

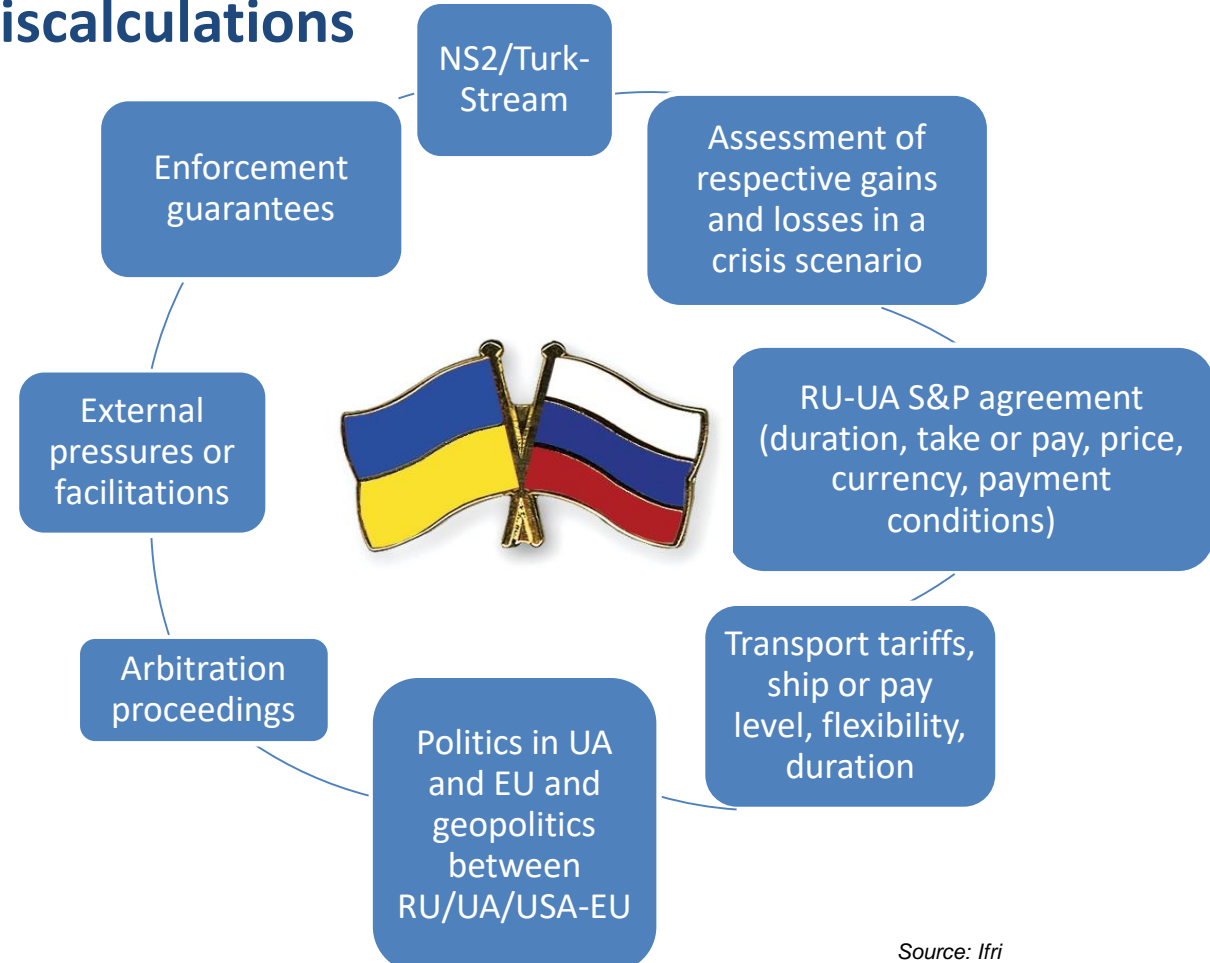
Evolution of gas transit via Ukraine in different scenarios, 2020-2030 (bcm)



Source: Ifri

- Transport UA route: Scenario NS corridor @ 102 bcm/y by 2021, Yamal @ 25 bcm/y
- Transport UA route: Scenario NS corridor @ 90 bcm/y by 2021 and Yamal @ 20 bcm/y and TS to EU @ 13 bcm/y (2023)
- Transport UA route: Scenario NS corridor @ 102 bcm/y by 2021 and Yamal @ 25 bcm/y and TS to EU @ 30 bcm/y (2024)
- Transport UA route: Scenario NS corridor @ 102 bcm/y by 2021, Yamal LNG @ 5 bcm/y, Baltic LNG @ 5 bcm/y (2022), Yamal @ 25 bcm/y until 2022 and 10 bcm/y after and TS to EU @ 13 bcm/y (2023)

Strategic issues for the December 2019 gas negotiations: avoiding miscalculations



Several outcomes possible, crisis can be avoided

- 30 bcm/year average capacity reservation, 10 years, yearly and seasonal variations + flexibility at 10%, technical gas price reflective of market adjustments
- Ship or pay based on 2/3 of volumes in first five years, 1/3 on second half
- Transportation tariff adjusted, similar level as today
- S&P agreement signed with Gazprom on 5 years basis, 3-5 bcm/y, take or pay clauses, German hub price without transportation at the UA-RU border, flexibility provided in line with ship or pay contract
- EU funding for soft modernization of UPU corridor
- European credits for Gazprom's modernization of its own system to Ukraine
- EU-Russia intergovernmental agreement offering guarantees
- Naftogaz halts latest Stockholm arbitrations on accelerated amortization
- Parties commit to obeying to arbitration rulings – Gazprom must pay if Svea appeal lost

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