

EUROPEAN GAS DAILY

May 2018

PLATTS GUIDE TO EU-RUSSIAN NATURAL GAS RELATIONS

This guide looks at relations between the EU and Russia in different natural gas-related areas, and gives an overall assessment.

Overall relationship assessment: **TENSE**

GAZPROM'S NORD STREAM 2 GAS PIPELINE PROJECT

Status: **TENSE**

Started: September 2015 - Gazprom and five European gas companies agreed to build second 55 Bcm/year Nord Stream gas pipeline from Russia to Germany.

Key issues: Russia wants it onstream by end-2019, when transit deal with Ukraine expires; says needed to safeguard supplies to Europe, avoiding Ukraine.

The European Commission says it creates a security issue by bringing too much Russian gas to EU through one route, and undermines gas transit through Ukraine.

BASF, Uniper, Shell, Engie and OMV planned JV but settled for agreeing to finance up to 10% each of the €9.5 billion cost after Polish antitrust body expressed concerns.

The companies have not been deterred so far by the risk of potential US sanctions.

German TSOs plan a 55 Bcm/year EUGAL link to Czech Republic by 2020 that can take NS2 gas. The route is largely parallel to the OPAL link.

The TSOs expect to recover EUGAL's costs from capacity sold on European booking platform Prisma, in line with the EU's third energy package market rules.

Latest news: In March the European Parliament backed an EC proposal to apply EU third energy package market rules, including tariff regulation, to all offshore gas links, including NS2.

The EU Council of national energy ministers has yet to decide its position. Both the parliament and the council have to agree for the proposal to become binding.

NS2 has received permits from Finland and Germany, and is on track for end-2019 start.

Next steps: Permits needed from Denmark, Russia, Sweden; building to start this year.

GAZPROM ACCESS TO OPAL GAS PIPELINE IN GERMANY

Status: **TENSE**

Started: 2013 - Gazprom asked for right to bid for more capacity in 36.5 Bcm/year OPAL gas link across Germany to Czech border.

Key issues: OPAL came online in 2011 and is linked to Gazprom's 55 Bcm/year Nord Stream 1 pipeline from Russia to Germany, and Germany's GASPOOL hub. It is owned 80% by Gazprom/BASF, and 20% by E.ON.

Gazprom had exclusive rights to 25.6 Bcm of OPAL capacity, but the EC restricted its access to 12.8 Bcm to address concerns about its dominant position in the Czech market.

In October 2016 the EC agreed to allow Gazprom's remaining 12.8 Bcm/year of exclusive capacity to be sold on European booking platform Prisma.

Gazprom is allowed to outbid rivals for up to 10.24 Bcm of this.

Polish state-owned gas firm PGNiG gained an interim EU court order to suspend the EC's decision in December 2016, interrupting the Prisma sales.

Latest news: The Prisma sales resumed in August 2017 after the suspension was lifted. Gazprom used this extra access to increase flows through Nord Stream 1 to a record 51 Bcm in 2017.

Next steps: The EU General Court in Luxembourg expects to rule in 2019 on Polish requests to annul the EC's October 2016 decision permanently.

The court has warned that extra capacity booked for after the final ruling may not be guaranteed.

EU SANCTIONS AGAINST RUSSIA

Status: **BAD**

Started: March 2014 - EU imposed sanctions on Russia for its role in destabilizing Ukraine.

Key issues: July 2014 - EU limited Russian access to European technology and services for developing Arctic, deep water and unconventional oil resources.

September 2014 - EU added measures restricting Rosneft, Gazprom Neft and Transneft's access to EU capital markets.

Sanctions to apply until 2015 Minsk peace accords implemented. EU has been careful not to disrupt Russian gas imports from Gazprom.

Latest news: In December the EU extended the sanctions until July 31, 2018.

Next steps: Sanctions to be reviewed before expiry; can be prolonged.

EC ANTITRUST CASE AGAINST GAZPROM

Status: **TENSE**

Started: August 2012 - European Commission opened formal probe into Gazprom's alleged market abuse in Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland and Slovakia.

Key issues: Restrictions on gas resales across borders and allegedly unfair pricing.

Latest news: The EC is still in talks with Gazprom to find a way to settle the case without fines, as it has with most other energy antitrust cases. Poland's PGNiG wants Gazprom fined.

A market test on Gazprom's commitments to drop all resale restrictions and enable customers to opt for prices linked to "competitive benchmarks," including western European gas hubs, closed in May 2017.

Next steps: The EC could accept new commitments without a further market test. There is no deadline for the EC's decision.

If the EC accepts commitments in the end, it will make them binding. Gazprom would then face a fine of up to 10% of its annual worldwide turnover if it later breaks them.

RUSSIAN COMPLAINT TO WTO ABOUT EU ENERGY RULES

Status: **TENSE**

Started: April 2014 - Russia complained to World Trade Organization that EU's third energy package discriminated against Russian energy infrastructure projects.

Key issues: New onshore EU gas pipelines can gain exemptions from EU third energy package rules on third party access, ownership unbundling and regulated tariffs under certain conditions.

Russia complained the EU did not grant Russian infrastructure the same level of exemptions as other projects.

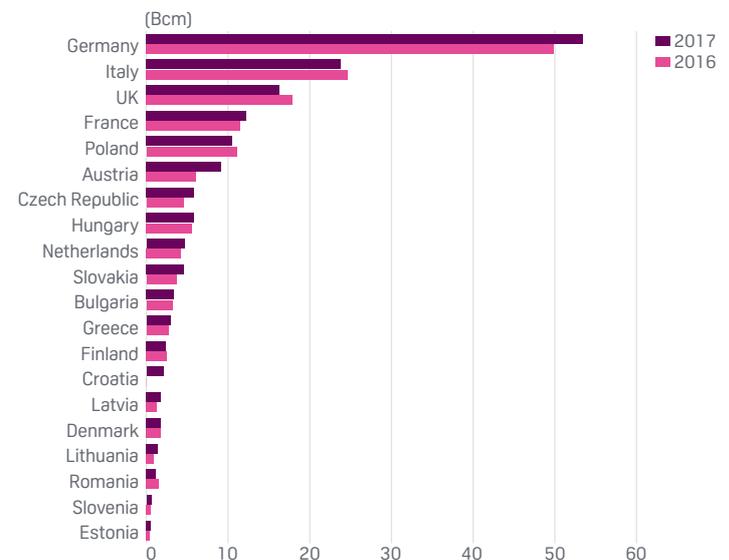
Latest news: A panel created by the WTO dispute settlement body in 2016 is investigating. It says the dispute is complex and it is taking longer than expected to issue a final report.

Meanwhile, the EC in November proposed applying EU third energy package rules also to offshore gas pipelines, including Russia's Nord Stream 2 project.

Next steps: The panel originally hoped to report in May 2017, and then by end-2017, but nothing is published to date (dispute DS476).

GAZPROM GAS SALES TO EU COUNTRIES 2017 vs 2016*

Status: **GOOD**



*No sales registered to Belgium, Ireland, Luxembourg, Portugal, Spain or Sweden. Malta and Cyprus do not use gas.

Source: Gazprom