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The European-Russian Gas Relationship: what happens next?

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The European-Russian gas relationship post-24/02

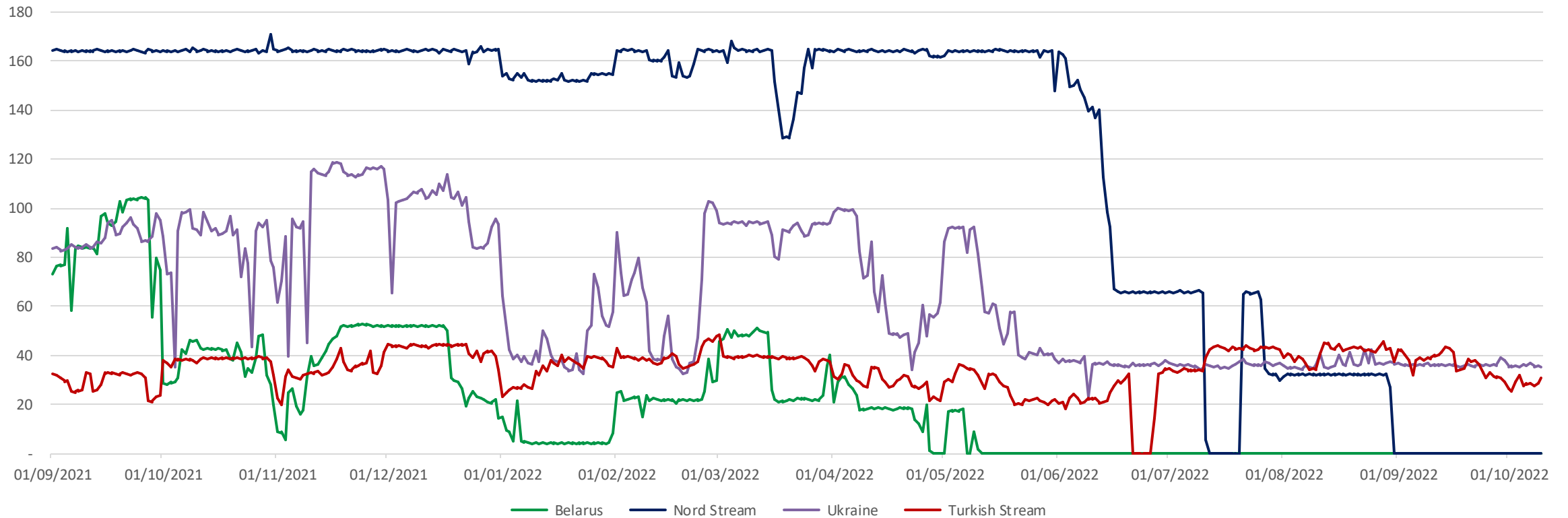
- **The biggest EU-Russia political crisis since the end of ‘cold war’:**
 - the West has responded to 24/02 by imposing massive sanctions in multiple sectors, gas sector has suffered less than others but technical maintenance and future production potential have been hit
- **‘Weaponisation of Russian gas’ became the predominant narrative in Europe after 24/02 and added impetus to the EC new policy & legislative initiatives on gas security**
 - **Versailles Declaration** (‘phase out’ dependence on Russian gas ‘as soon as possible’), **REPowerEU** (imports of Russian gas are cut by 2/3 by the end of 2022 and stopped completely by 2027), **SoS Regulation revision** (mandatory storage filling targets), **Gas Regulation revision** (certification of storage operators), **Save Gas for Safe Winter – Coordinated Demand Reduction** (mandatory 15% gas demand reduction during 1/8/22-31/3/23 if Russian supplies are cut off completely, voluntary otherwise)
- **21/09 (referenda & mobilisation) spells further escalation thus suggesting that politics and security – as well as gas relationship – are likely to get worse before they get better**

The EU policy went from reducing dependence on Russian gas to cutting by two thirds in 2022 and phasing out by 2027, but EU control of this process has not been possible



Russian Pipeline Gas Flows to Europe in the Past 12 Months

Russian Pipeline Gas Supplies to Europe by Route (mmcm/d)



Source: data from ENTSOG Transparency Platform and graph by Sharples/OIES



'Traffic Lights': what will be Russian gas exports to Europe in coming weeks/months?

- **Nord Stream 1 and 2**
 - No flows via NS1 since 31/08 as all turbines are switched off as their repair and maintenance had been caught in sanctions. Gazprom has insisted to sanctions-proof repair and maintenance process for all turbines. Its message to Europe – for gas to flow sanctions must not hurt maintenance (and exports more generally). NS2 certification has been frozen by Germany on 22/02.
 - Both lines of NS1 and one line of NS2 have been damaged by explosions on 26-27/09 – suspected sabotage – and rendered unusable for a prolonged period of time. No gas could be expected to flow through NS or NS2 in 2022/23 anyway but any lingering expectation that it might have been crushed
- **Poland/Belarus (Yamal-Europe) corridor**
 - Zero westward flows and any increase is unlikely as EuroPolGaz is under Russian sanctions
- **Ukraine corridor**
 - Flows are stable at ~40 mmcm/d but any increase is unlikely (although possible under 2020-24 transit contract) but it is possible that the Ukrainian corridor could become unavailable
- **TurkStream**
 - Flows (to southern Europe) are stable at ~40 mmcm/d. Least likely corridor to become unavailable but the Netherlands decision to revoke an export license from its operator (due to sanctions) could complicate maintenance and impact flows in the future

NS and NS2 explosions look like a kill shot to prevent Russian gas from ever returning to European gas market



Will there be any Russian gas exports to Europe in the coming years?

- Russian gas supplies to Europe could continue at TOP levels until existing LTSCs expire in the early 2030s, **“TOP 2030+”** but current events suggest this is highly unlikely
- Russian gas supplies to Europe could stop before winter 2022/23 either because of Russian or European political decisions, **“Winter(s) of Discontent”**
- Russian gas supplies to Europe (which have already decreased by 2/3 in 2022) will almost certainly stop completely by 2027 due to early termination of existing LTSCs, **“REPowerEU”**

Continuing Russian gas supplies to Europe at TOP levels until contracts expiry in the 2030s ‘TOP 2030+’ scenario is more beneficial for decarbonisation and affordability. But less likely than either REPowerEU (elimination by 2027) or a complete loss of Russian supplies in 2022? The answer depends on politics. Referenda in four Ukrainian regions, NS and NS2 explosions, and a potential loss of Ukrainian transit may make ‘Winter(s) of Discontent’ a frontrunner



REPowerEU Plan: additional gas infrastructure enabling imports of non-Russian gas

- Gas PCIs and additional projects identified through REPowerEU
 - Additional new LNG terminals (FSRUs) and import pipelines
 - Intra-EU gas interconnections enabling eastward flows
 - Estimated at 10 bn euros of investments by 2030



Some of these projects are not new. They have been discussed but not progressed in the past because they lacked commercial rationale. Will they happen this time? Even if they will – thus relaxing import infrastructure constraints – supply availability will be longer term



European-Russian gas relationship: what happens next?

- A complete loss of Russian gas supplies to the EU during winter 2022/23 would have **very serious consequences** impacting the EU ability to refill its storages for winter 2023/24
- If Russian gas supplies are cut off, Germany, Austria, Italy, Czechia and Slovakia stand to be affected the most and the impact of solidarity measures would be limited
 - North-western European LNG terminals are running at full capacity whereas Spain/France ability to provide solidarity by flowing additional LNG to the region is limited due to infrastructure bottlenecks and although UK has significant LNG import capacity which could act as a land bridge its usefulness is limited by interconnectors capacity
- Having been awash with cost competitive gas from variety of sources (Norway, Russia, global LNG) arriving through multiple routes, **the EU is facing a future of significant uncertainty** about how much additional infrastructure for delivery of non-Russian gas might be needed

ENTSOG Winter Outlook: In the event of a mild winter, a demand reduction of 15% and cooperation between Member States would be required to mitigate the risk demand curtailment in EU countries. In case of a cold winter, the risk of curtailment would be higher



Thank you!

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