RUSSIA PLAYS GEOPOLITICAL GAZPROM GAME

- 29.09.2016

Financial Times, 28 September 2016

Few world energy projects are as divisive as Gazproms Nord Stream 2: the planned $11bn, 1,200km pipeline to bring Russian gas direct to Germany under the Baltic Sea. Critics of the scheme the US, some EU officials, and several central and eastern European countries say it will increase Europes reliance on Russian gas and restrict competition. They add that it will harm the economies of countries such as Ukraine, Slovakia and Poland, which currently earn big fees from carrying Russian gas across their territory.

However, Nord Stream 2s backers number not just Moscow but also five big European companies due to be involved in building it Germanys BASF and Uniper, Frances Engie, Austrias OMV and Royal Dutch Shell plus senior German politicians including, it seems, chancellor Angela Merkel. They say Nord Stream 2 will eliminate transit risks a euphemism for enabling Russian gas exports to Europe to bypass Ukraine. Disputes in 2006 and 2009 briefly led Gazprom to cut off supplies to Kiev, hitting deliveries further west. Supporters insist Nord Stream 2 will be more efficient and increase gas supplies into Europes heart, making the market more competitive.

Then, last month, Poland dealt the project a potential killer blow. Its anti-monopoly watchdog warned it would block the venture as it would increase Gazproms already dominant position in central Europe. The five European partners pulled out of plans to each take a 10 per cent stake in the Nord Stream 2 consortium. The Polish watchdogs approval was needed before Gazprom could issue the shares enabling them to join the consortium. So the Russian state-controlled monopoly said that Nord Stream 2, as a 100 per cent Gazprom-owned subsidiary, would instead do the work itself, and its European partners would still find ways to contribute.

Ilian Vassilev, an energy consultant and former Bulgarian ambassador to Moscow, has suggested this idea of Gazprom financing the pipeline on its own borders on extreme optimism given the state of its finances. The company could probably only do so by getting some form of Russian state help — though Russias budget is hardly flush.

But Gazprom does not give up that easily. It has signalled it will announce agreements with its European partners and give an update on its plans at a St Petersburg gas forum next week. It also formally applied for permission this month to build two new lines parallel to Nord Stream 1, opened in 2011, along Swedens continental shelf.

Back in 2014, after Moscow cancelled the much-vaunted South Stream project to bring gas under the Black Sea, in the face of EU opposition, it had appeared that Gazprom might be finally shifting towards an export policy driven more by commercial than political considerations.

Now, though, with Gazprom looking at bringing gas to southern Europe via Turkey instead, it is difficult to see Nord Stream 2 ▯ on which it signed initial agreements with European partners last year — as anything other than a geopolitical game.

[The pipeline] serves the Kremlins agenda by stripping Kiev of several billion dollars a year in transit fees

Gazproms projects appear aimed at ending Ukraines role as a transit country for Russian gas, by the time the current transit contract with Kiev expires in 2019. That might seem understandable given the impact of past gas squabbles between the two countries. But it also serves the Kremlins agenda by stripping Kiev of several billion dollars a year in transit fees.

Maros Sefcovic, the EUs energy commissioner, has told the Financial Times the northern pipeline looked like a sort of punishment for Ukraine, after its 2014 pro-western revolution. He added the project was contrary to what we want to achieve in creating a new EU energy union.

Mr Vassilev suggests a bigger motivation for Moscow may be to forge a new strategic bond with Germany, the landing point for Nord Stream 2, by turning it into a European hub for Russian gas. That could benefit German industry by offering it lower gas prices but could also be exploited by Russia politically in the future.

For minority shareholders who own 49 per cent of Gazprom, the multiple reversals over export routes can be difficult to fathom and suggest the company remains a tool of Kremlin foreign policy. As long as there is no sign of that changing, there is little chance of closing Gazproms huge discount to global energy peers ▯ leaving its dollar value still at little more than one-sixth of its peak a decade ago.

Kaynak/Source: