Gazprom: from soviet planning to capitalism unknowns!

In the old days, Gazprom strategy was first to contract with buyers and then to build the required infrastructure, regardless of any other risks that could materialise later. This gold plated strategy was acceptable in a world where natural gas demand was always growing and where Gazprom, the export monopoly for Russian pipe gas, was rich enough to bear all those costs.

After the failed coup in Turkey, Gazprom is now in the process of reassessing all its pipes projects to figure out the best option for the company to export natural gas. The old assumption that Gazprom will always overinvest in transport capacity to guarantee security of supply to its clients could prove wrong in the future. Security of transport should not be borne only by the supplier. The good old days when European contractors where paid by Gazprom to lay pipes for the benefit of European consumers are over. And, in a new Russian world, where competitors (Rosneft, Novatek) are lobbying to access spare export capacity, this old strategy is becoming riskier as competitors could convince the State to amend the pipe gas export monopoly, allowing them to use this at the expenses of Gazprom...

This seminar will look into recent changes that are forcing Gazprom to adapt:

- Since 2016, US Liquefied Natural Gas is berthing in Europe increasing de facto competition. But by selling gas not only via the traditional long term contracts but also via auctions, via Gazprom Marketing & Trading and via its 100% owned European utility, Gazprom has gained flexibility and can adapt much faster to any market change.
- In May 2014, Gazprom and CNPC signed the Sales and Purchase Agreement for natural gas to be supplied to China via the eastern route (Power of Siberia 1). China gas demand has grown by an astonishing 15%pa in 2005-2015 but this growth slowed down in 2014/2015 (+5%). This means that the Chinese gas imports forecast done back in 2014 need to be revised down. This story (over contracting at too high prices on the eve of a severe downward demand revision) looks similar to what Europe has witnessed in the last decade, where net imports stayed at the same level through the last 10 years... Power of Siberia 1 could be operational from 2019 but the ramp-up will take more than 5 years to limit upfront capex spending and to avoid spare capacity (that could lead to Rosneft willing to use it to export gas).
- TurkStream is needed to allow Gazprom to cut transit via Ukraine to Turkey. The intergovernmental agreement should now be fast-tracked by the Turkish authorities to allow for the pipe to be operational before 2020.
- In Europe, the stress test will take place in 1st January 2020 as Russia will not renew on-time the transit contract via Ukraine that expires on 31 December 2019, leaving Europe short of Russian gas post 2020e unless a Nord Stream 2 solution is found soon... And the EU Commission and the gas industry have divergent views on the need to secure transit flows via Ukraine.