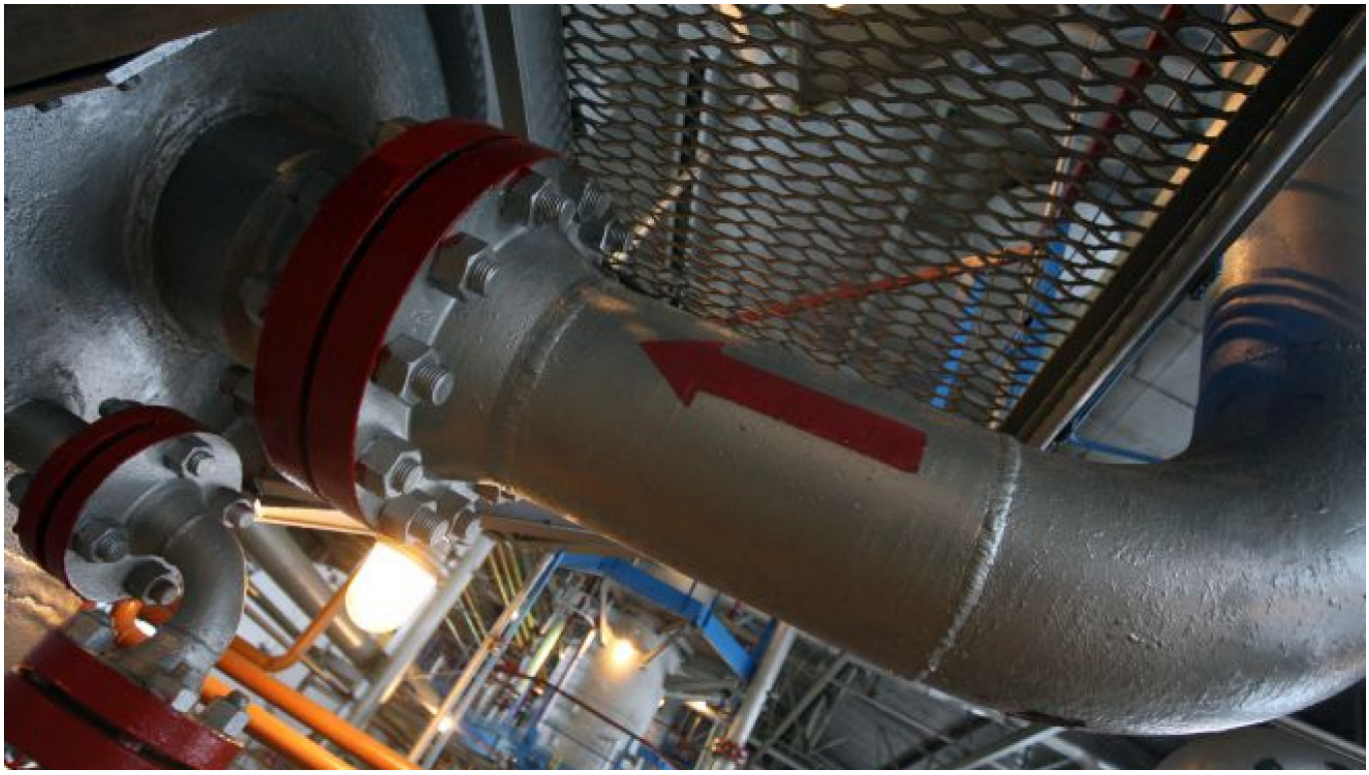
The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Europe Bracing Itself for Worst-Case Gas Scenario

By Alexander Panin

June 17, 2014



One alternative route for gas delivery to Europe that bypasses Ukraine is the giant South Stream pipeline, which is planned to be built along the bed of the Black Sea, entering Bulgaria and then going on to Serbia, Hungary and Austria with a capacity of 63 bcm.

In the wake of Russia's decision to switch Ukraine to prepayment for gas starting Monday, the European Union is planning a new round of negotiations as the danger of supply disruptions to Europe heightens.

European officials say, however, that the bloc is currently far better prepared to cope with shortages than it was back in 2009, when a dispute between Ukraine and Russia disrupted gas supplies to Europe.

"Much has changed [since 2009]. We did a lot to improve the security of gas supplies. There are interconnections between member states; we have more reverse flow options. It is easier to help each other if necessary," European Commission spokeswoman Sabine Berger said.

Europe on average depends on Russia to supply a third of its gas, half of which goes through Ukraine, so only 15 percent of EU supplies are endangered.

Nonetheless, the European Commission, which mediated the unsuccessful gas talks between Russia and Gazprom, still hopes for a mutually beneficial resolution.

Ukraine's storage facilities now hold 13.5 billion cubic meters, or bcm, of gas, according to the Gas Storage Europe monitoring agency.

However, if Ukraine does not pump up its gas reserves to at least 18 bcm by the end of summer, deliveries to the EU will be at risk in winter, EU Energy Commissioner Günther Oettinger said at a news conference in Vienna on Monday, following Russia's decision to switch Ukraine to prepayment.

Gazprom said in a statement on Monday that gas transit to Europe was continuing unhindered and Berger said the same day that the supply to the EU "is normal."

At the same time Gazprom said it had warned the EU that disruptions are possible if Ukraine's Naftogaz starts siphoning off gas from transit flows.

Lilit Gevorgyan, senior economist at IHS Global Insight, a U.S.-based consulting company, was doubtful that Moscow and Kiev will find a quick compromise on gas price, meaning disruptions for Europe could soon follow.

"Once Ukraine runs out of its own stored gas volumes, which is likely to be close to the cold months, the risk of gas supply disruptions to the EU will be far higher," she said, adding that although Europe may be in a better position than in 2009, it will still be difficult for it to find alternative supplies in the long run.

"In the medium- and long-term, Russian energy imports remain a pressing problem for the bloc, both politically — as many in the EU see gas as a political lever for Moscow — and in terms of supply security, considering that Ukraine sends 50 percent of Russian gas to the EU," she said.

Alternative Routes

One alternative route for gas delivery to Europe that bypasses Ukraine is the giant South Stream pipeline, which is planned to be built along the bed of the Black Sea, entering Bulgaria and then going on to Serbia, Hungary and Austria with a capacity of 63 bcm.

But because the project does not comply with EU anti-monopoly regulations that prohibit the same company from both producing and transporting hydrocarbons, South Stream has partly been put on hold.

Earlier this month Bulgaria gave in to pressure from the EU and said work on its part of the pipeline had been put on hold until the project is brought in line with European laws.

Gazprom has been promising to align itself with European laws since 2008 but has not managed to complete the job yet, said Mikhail Krutikhin, partner and analyst at the Russia-based RusEnergy consulting company.

"The European Commission is not actually banning the project. It is just telling Gazprom to bring the documents into line with European laws, which works for everyone," he said.

The South Stream project got a shot in the arm on Tuesday when Russian Foreign Minister Sergei Lavrov said Serbia is ready to start building its leg of the pipeline in July as planned.

Another alternative to gas shipments through Ukraine is the existing Nord Stream pipeline that links Russia with the gas network of Central and Western Europe via a trans-Baltic route. Yet it is filled only to half of its 55 bcm capacity as the use of its European link, OPAL, is restricted due to the same EU anti-monopoly rules that have slowed South Stream down.

Even if it gets pumped to full capacity, Nord Stream will not replace gas deliveries through Ukraine.

Nord Stream and the Yamal-Europe pipeline both supply consumers in central and western Europe, whereas deliveries via Ukraine are designated for other markets, such as Bulgaria, which is almost 100-percent dependent on Russian gas, Krutikhin said.

He added that there is no real alternative for Russian gas supplies to Europe and that the only hope now is for the conflict between Russia and Ukraine to be resolved using diplomatic means.

Any effort to find an alternative to Russian gas supplies will take time and until then both EU and Gazprom will have to find ways to ensure that the customers do not suffer, IHS Global Insight's Gevorgyan said.

"Gazprom has already indicated that it is ready to meet its EU customers' needs using pipelines that bypass Ukraine. Furthermore, considering that Russia-EU energy relations commercially complement each other, Russia is still likely to remain a key energy supplier for the EU in the coming years," she said.

See also:

Russia Turns Off Ukraine Gas Supplies as Talks Collapse

Contact the author at a.panin@imedia.ru

Original url:
https://www.themoscowtimes.com/2014/06/17/europe-bracing-itself-for-worst-case-gas-scenario-a36492