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Poland Plans Gas Hub to Kill Reliance on Russian Energy

By The Moscow Times

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Valves and pipelines are pictured at the Gaz-System gas distribution station in Gustorzyn, central Poland.

Poland is taking steps towards creating a gas trading and transit hub in Central and Eastern Europe aimed at accomplishing what much of the region has failed to do: shake off almost complete reliance on Russian gas imports.

Poland will open a liquefied natural gas terminal in 2015 and build new pipelines — including a planned north-south corridor stretching to Croatia — to help ease the grip of Russia's Gazprom over former Soviet bloc nations.

Central Europe's biggest economy, which also intends to upgrade gas links to Lithuania to allow the re-export of gas to the Baltics, has said it plans to build 2,000 kilometers of pipelines criss-crossing the country over the next 10 years.

"The north-south corridor, currently under construction, could be an interesting alternative,

particularly for the southern countries, as it will make it easier for them to access non-Russian gas," Tomasz Chmal, an analyst at Poland's Sobieski Institute, said.

"Countries like Slovakia, Hungary or Bulgaria could use it and buy gas at market prices, not the prices they manage to negotiate with Gazprom."

Like much of the region, Poland relies on Russia for nearly all its natural gas, a precarious situation for a nation whose uneasy relationship with Moscow has been further strained over the stand-off with Ukraine.

Reduced gas flows from Russia this month to Poland, Slovakia, Austria and Romania have also underlined both the threat and the need for countries in Central and Southeastern Europe to forge their own energy independence.

In April, Poland opened its first gas link from the west by expanding a station on the border with Germany with a reverse flow capacity of 2.3 billion cubic meters annually and the potential to rise to 5.5 bcm in case of supply disruptions. Gas in Europe has traditionally flowed east to west.

The country also began exporting up to 1.5 bcm to Ukraine earlier this year and could send up to 10 bcm through the proposed north-south corridor to Croatia, Jan Chadam, chief executive of pipeline operator Gaz-System, said. Poland's annual gas demand amounts to 14 bcm.

"We will build parts of the north-south gas corridor in such a way to make it ready in the years 2018-2019," Chadam said. "They will allow for high flexibility, adjusting the direction of flows to the geopolitical conditions and prices."

Strategic Location

While a Polish gas hub is at least a few years off, analysts say shared borders with seven nations and a long Baltic coastline provide the kind of strategic location needed to connect to European Union markets to the south and west as well as to Baltic and Nordic countries.

Anna Bulakh, a research fellow at the International Center for Defense Studies in Tallinn, said improved links with Germany and becoming the first country to supply natural gas eastward to Ukraine highlight Poland's determination to carve out a role as a regional gas hub.

"Poland more than any other EU member state has developed the political and commercial leverage to move the idea of the integrated European energy market forward in a way that can make it a hub for the Baltic-North Sea and Baltic-Adriatic corridors," Bulakh said.

Creating a gas hub also requires high liquidity, which Poland is hoping the new LNG terminal expected to open in the port city of Swinoujscie in 2015 will provide.

The facility will initially be able to accept 5 billion cubic meters per year after Poland signed a deal to bring in Qatari gas. A potential third storage tank could boost capacity to 7.5 bcm.

But energy security won't come cheap. The Qatari imports would cost up to a third more than what Gazprom charges for deliveries to Europe, based on current LNG spot prices.

The question for Poland is whether it has the heft to create a major gas hub on par with TTF in the Netherlands and NBP in Britain, or more of a regional point similar to Germany's NCG.

Experts say that while the LNG will give Poland the ability to become a regional hub, challenging more-established hubs on the continent might also require the country to speed progress on its slowing efforts to develop shale gas reserves.

"Poland is clearly seeking to become a regional hub for Central and Eastern Europe," Oliver Sanderson, an analyst at Thomson Reuters Point Carbon, said. "Whether this becomes a reality will depend heavily on the diversification of gas sources transiting the country."

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