

Russian gas to Europe: from simple to multiple contractual structure

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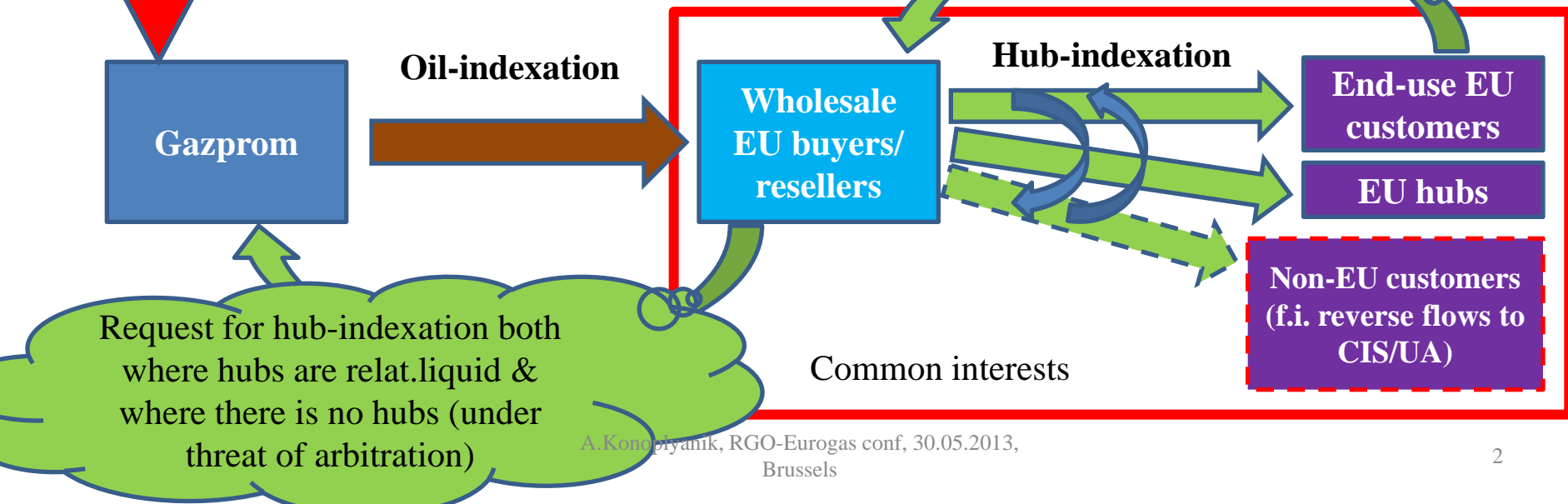
Evolution of gas value chain & pricing mechanism of Russian gas to EU (1)

Past (Pre-2009) – growing EU market



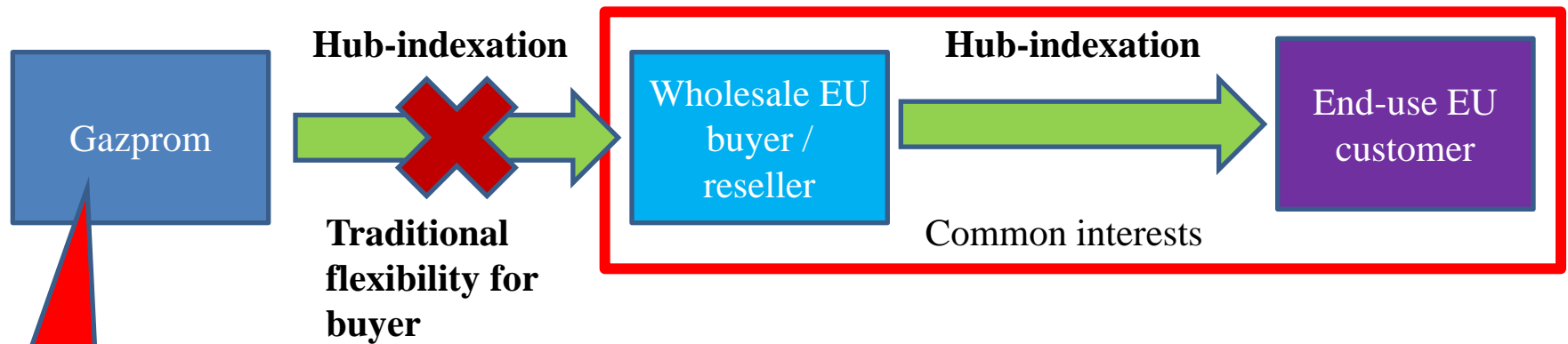
Nowadays (Post-2009) – oversupplied (in NWE segment - ?) EU market with not yet clear future trends

Gazprom as price-taker from OIL market



Evolution of gas value chain & pricing mechanism of Russian gas to EU (2)

Future (“NO GO” contractual scheme under any (?) supply-demand scenario)

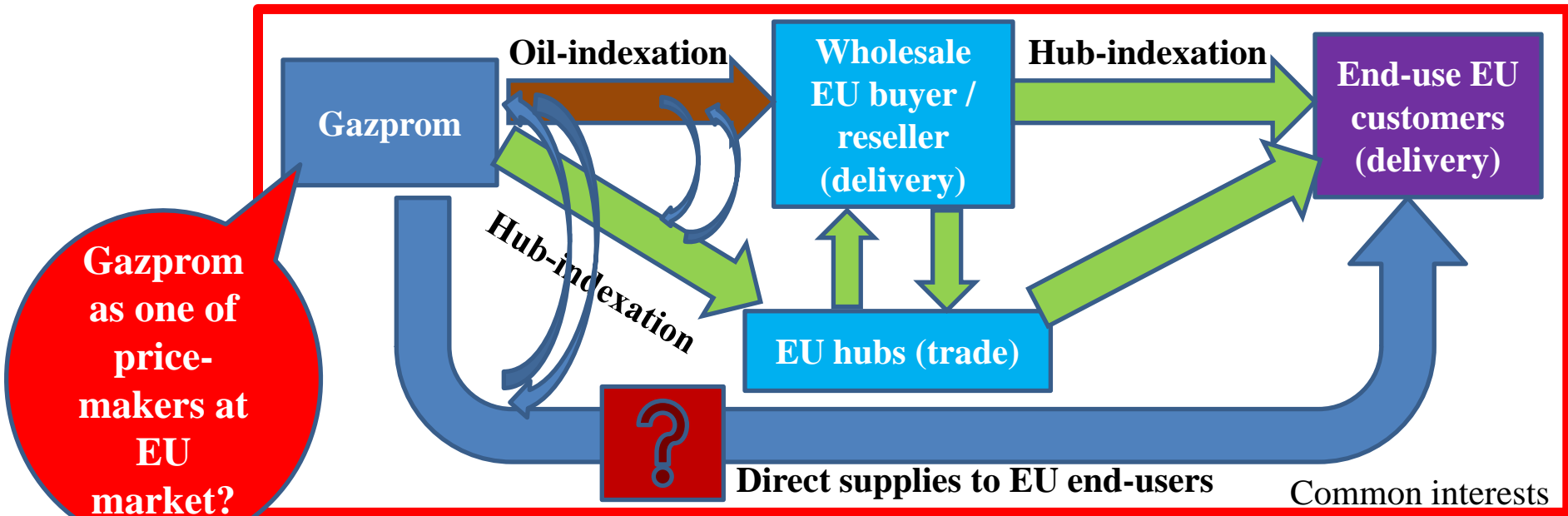


Gazprom as price-taker from GAS BUYER's market (with no participation on it)? => NO GO (a producer's nightmare)

- If buyer is large relative to the wholesale market / gas hub then he has market power relative to seller as he controls flows to wholesale market
- In well supplied market buyer can nominate maximum DCQ – more than he requires for own needs
- Gas the buyer does not require is sold onto market at spot price pushing price down, but buyer is indifferent as he buys and sells at same price
- But producer loses out.

Evolution of gas value chain & pricing mechanism of Russian gas to EU (3)

Future (flexible & adaptable contractual structure => portfolio management?)



DG COMP might possibly claim that as if Gazprom again “abuses dominant position” if/when Gazprom actively enters the hubs. But:

- Russia possess huge resources of gas & will stay as major EU gas supplier,
- it’s for Russia to decide on its export structure (single export channel or liberalized export like in oil) – this is the sovereign right of the sovereign state,
- possible DG COMP restrictions on Russia/Gazprom (RUS state company) at EU hubs would violate EU liberal markets rules (reciprocity approach not applicable since Russia has not declared yet “freedom of movements of ...”, but EU has as long ago as in 1958 (though has moved to this in practice only nowadays),
- Russia’s Gazprom is not Microsoft – non-renewable energy resource with resource rent extraction & utilization is not the same as personal computers, etc...

Thank you for your attention

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