

Europe's Most Transparentized Energy Group:

The Brussels Energy Club Provides New Insights into Gazprom's Export Plans to EU Gas Consumers

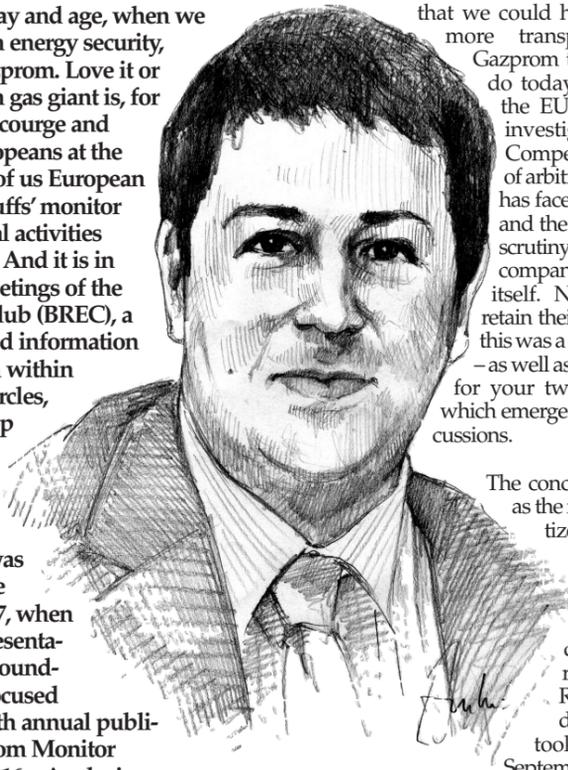
In the present day and age, when we think European energy security, with think Gazprom. Love it or hate it, the Russian gas giant is, for many of us, both scourge and partner of the Europeans at the same time. Many of us European 'energy security buffs' monitor Gazprom's external activities with bated breath. And it is in the roundtable meetings of the Brussels Energy Club (BREC), a recently established information exchange platform within Brussels' energy circles, that some of the top insights into Gazprom's international business activities are to be discovered. This was very much the case on January 25, 2017, when BREC hosted a presentation and ensuing roundtable discussion focused around the in-depth annual publication: *The Gazprom Monitor Annual Review 2016 – Analysing the External Dimensions of Russian Gas*.

The discussion was led by St. Petersburg-based Dr Jack Sharples, an energy specialist who during the last few years has emerged as one of Europe's top 'Gazprom watchers'. Dr Sharples has now authored more than 50 Gazprom Monitor monthly reports and annual reviews going back to 2010, which are published by the Brussels-based website, European Geopolitical Forum (EGF).

Dr Sharples' presentation of the Review on January 25, a study which closely follows Gazprom's external activities for the past 12 months, was based on the structure of the 2016 Review itself. It cover the following topics:

- Gazprom and the EU gas market
- The EU antitrust investigation into Gazprom
- Major infrastructure projects: Nord Stream and Turkish Stream
- Gazprom and Ukraine

We learned a great deal about Gazprom's export business during the course of the 100 slide-strong presentation and the four hours of discussion with BREC members and select guests. To begin with, the fine tradition established at previous BREC meetings – that of inventing new energy industry concepts and terminology – developed further on January 25. It came out of the discussions that Gazprom has now become the most transparentized energy company in Europe. This refers to the trend where we have now seen so many investigations launched into the company's business,



that we could hardly have any more transparency about Gazprom than we actually do today. These include the EU anti-monopoly investigation by DG Competition, the spate of arbitrations the group has faced in recent years and the sheer volume of scrutiny under which the company regularly finds itself. Now some may retain their scepticism, but this was a chain of thinking – as well as a great one-liner for your twitter accounts – which emerged during the discussions.

The concept of Gazprom as the most transparentized company followed on from one of our meetings earlier in the year: a discussion on reviving the EU-Russia energy dialogue which took place in September of last year.

During this BREC event, where the discussion was led by Russian energy expert, Dr Tatiana Mitrova, Gazprom was dubbed as 'the most adaptable' monopolist in Europe. This was interesting. The context here is that in Brussels, Gazprom is often accused of using its monopoly gas supply position to extract unfair prices for its gas deliveries, or levy higher prices on countries that don't happen to toe the Kremlin's line on foreign policy matters, hurting the Russian national interest. We can also speak of a narrative of substantial resistance to the company's business expansion efforts inside the EU energy market, since it 'does not like to follow European rules'.

That said, it came out of earlier BREC meetings that Gazprom has actually gone quite a long way in order to adjust its business model and alter its behaviour in order to adhere to EU rules on the one hand, and to satisfy the whims of its customers on the other. We have seen the company gradually disregard destination clauses, introduce elements of more flexible spot market pricing mechanisms into some of its gas supply arrangements and show some sign that it may yet jettison its policy of keeping with long-term-contracts as the bedrock of its gas export strategy to Europe.

We have also seen the company hold a series of auctions allowing third parties to ship gas from Russia to the EU via Nord Stream, in a gentle sign of some loosening of its gas export monopoly. The result of all of this – Gazprom becomes dubbed as Europe's most 'adaptable monopolist'

Two of the key messages that came out of the BREC January 25 meeting in reviewing Gazprom's gas exports for 2016 were that:

- Overall, Gazprom is doing well in terms of its gas sales to Europe, but continues to face a range of hardly insignificant political and/or regulatory issues, or perhaps better put, challenges.
- Despite the changing architecture of European gas delivery systems, Russian gas is here to stay – at least in our lifetime.

Indeed, if we consider the first of the above points, we only need to consult the opening chapter of Dr Sharples' *Gazprom Monitor Annual Review 2016*, which he begins with the headline: 'Gazprom set to achieve record-breaking year for export volumes to Europe in 2016'. The slides from the presentation provide substantial detail on all of the numbers, which reveal that Gazprom exported a record breaking 179.3 billion cubic meters of natural gas to Europe in 2016. This was an increase on each of the two previous years' deliveries by substantial volume.

An upsurge in Gazprom's deliveries to Europe comes amidst a decline in European indigenous production, which is also one of the reasons why both Gazprom and its European partners have been pushing for the Nord Stream II pipeline. However, we learned that due to a variety of reasons the prospects for the realisation of this project remain contentious at the present time: it may or may not come on stream.

When it comes to the longevity of Russian gas on the EU market, the January 25 BREC meeting provided us with a vocal discussion on how the geographical flows of gas have been changing in Europe, and now flow from west to east as well as from east to west. Paradoxically, it is since the inception of the Nord Stream I pipeline, the decline of destination clauses and the greater focus on reverse flows and interconnectors inside the EU that Russian gas has found itself flowing from Germany to the Czech Republic, for example, rather than from Russia to Czech via Ukraine and Slovakia.

While one can argue that this is now European gas flowing from internal point of supply to point of demand within the EU, the end result is that there is more Russian gas coming into the system. This is further reflected by the fact that Gazprom's sales are up, the price of gas is down, and there is not sign of a trough in demand despite Europe's wider commitment to de-carbonisation and the Paris agreements on climate aka December 2015.

In fact, we are hearing no shortage of positive noises about gas from top EU decision makers outside of the BREC framework: (former-EU Energy Commissioner) Gunther Oettinger stated publicly at a Brussels energy gathering last week that 'investments into gas pipelines are not stranded assets. Investments into LNG terminals are not stranded assets'. (Vice-President of the European Commission's Energy Union) Maros Sefcovic's rhetoric on Nord Stream has also turned

somewhat softer of late, it should be added, while many are now saying that gas has a definitive role to play in our decarbonisation strategies. This is positive both for gas, as well as for Gazprom, and further underscores the view emanating out of the Brussels Energy Club meeting that Russian gas is here to stay. Or at least this is very likely to be the case in the medium term.

Ultimately, you would think that much of this discussion would be decided by the 'invisible hand', bearing in mind signatory country commitments to Paris agreement national targets as well as the climate and sustainability agenda of the EU. Of course, it is the case that in many a meeting of the Brussels Energy Club, we have discussed and debated as to what might be a 'fair price' for gas. While views on this subject will continue to differ, many of us would agree with the notion of letting the 'market decide' is a reasonable compromise direction. However, in the gas business, the idea of bringing buyer and seller together does not always constitute what Adam Smith may have construed to be the 'perfect market'. To the contrary, in the wider-European gas markets, ministers often tend to take on a more prominent decision making role than managers.

The perception of overarching policy objectives casting their shadow over market forces tends to be high. This applies in particular to some of the big, Russia-driven infrastructure projects, such as Gazprom's major gas supply pipelines to Europe. Very few of these projects tend to receive the 'red carpet' treatment in Brussels, however. Indeed, many an energy punter in Brussels questions the commercial viability of such projects while our friends across the Atlantic attack them as outright political tentacles of the Kremlin.

All of that said, there is one fundamental question that we have yet to ask in this short article with respect to the Nord Stream pipeline projects, particularly the expansion project Nord Stream II: is this a more cost efficient way of bringing Russian gas to the EU than via the long established Ukrainian corridor? While this is the type of question that might raise some eyebrows, it remains a discussion that needs to be had – ideally in a sober and rational manner.

And it is for this very reason that we have invited the Russian energy expert, Dr Konstantin Simonov, author of the recent paper: *Nord Stream II Vs Ukraine: Let the Costs Decide*, to Brussels to lead the discussion at the next BREC meeting which takes place on February 23. I will now finish by warmly inviting you to this event in order to debate it out at the next BREC meeting so that we can grasp which route is the real winner when it comes to the price of gas deliveries to Europe: Ukraine's long established energy corridor or Russia's Nord Streams.

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Investir avec le BERD

Dans le cadre de la visite de travail du président de la Banque européenne pour la reconstruction et le développement (BERD), Suma Chakrabarti, la Chambre de Commerce a organisé, en collaboration avec le ministère des Finances, un séminaire sur les possibilités d'investir avec le support de la BERD.

Parallèlement au renforcement des relations d'affaires entre le Luxembourg et la BERD, la visite de travail était également l'occasion pour MM. Chakrabarti et Gramagna de préparer la réunion annuelle des gouverneurs de la banque qui se tiendra en mai prochain à Chypre.

Titulaire depuis mai 2016 et pour un an de la présidence du conseil des gouverneurs de l'institution, Pierre Gramagna présidera à Chypre l'assemblée définissant les grandes lignes stratégiques de l'institution, à commencer par son engagement dans le financement de l'économie verte et dans l'accueil des réfugiés.

La banque, créée en 1991 et détenue par 65 pays, oeuvre pour encourager la transition vers des "économies de marché" et "promouvoir l'initiative privée et l'esprit d'entreprise" et ce, au travers d'actions s'étendant de l'Europe centrale à l'Asie centrale, en passant par l'ouest des Balkans, la partie méridionale et orientale du bassin méditerranéen et, depuis peu, Chypre et la Grèce. Pour



Organisé par la Chambre de Commerce, en collaboration avec le ministère des Finances, le séminaire portait sur les possibilités d'investir avec le support de la BERD

ce faire, elle utilise une large gamme d'instruments financiers: prêts, prises de participation et garanties.

Le renforcement des monnaies locales et des marchés financiers locaux est également un axe essentiel de la stratégie de la BERD dont la solidité financière se reflète dans sa note AAA que lui attribuent les agences de notation internationales.

Depuis le début des années 1990, 4,75 milliards d'euros des 113 (dans 4.723 projets) levés par la banque basée à Londres l'ont été via des sociétés luxembourgeoises selon les chiffres présentés par Suma Chakrabarti le 1^{er} février à la Banque et Caisse d'épargne de l'Etat.

Avec une donation s'élevant à 40 millions d'euros échelonnée sur plusieurs années, Pierre Gramagna

a ainsi tenu à souligner le fait que le Grand-Duché constitue "le premier contributeur per capita" de cette banque à capital public. Le Luxembourg contribue ainsi à la transition légale et aux programmes de dialogue politique, au développement du secteur financier, à l'égalité entre les sexes, à l'inclusion sociale et à la durabilité énergétique et environnementale.

Carlo Thelen, directeur général de la Chambre de Commerce, a, quant à lui, insisté sur le fait que les banques luxembourgeoises sont impliquées dans le programme de facilitation du commerce, qui vise à promouvoir le commerce extérieur entre les pays d'opérations de la BERD et entre elles, et propose une gamme de produits pour faciliter ce commerce.

Par le biais du programme, la BERD a financé 37 opérations d'exportation et d'importation de sociétés luxembourgeoises totalisant 174 millions d'euros. Ceci étant particulièrement important car il est essentiel que les entreprises luxembourgeoises se développent et prospèrent en saisissant les opportunités offertes par les marchés étrangers.

En 2015, les consultants luxembourgeois ont remporté 85 contrats pour la fourniture de conseils spécialisés dans le domaine de l'industrie et de la gestion. Les hommes d'affaires luxembourgeois ont également pu rencontrer individuellement les représentants de la BERD pour discuter de leurs projets.

Source : Chambre de Commerce