

## The Gazelle gas pipeline has connected the Czech Republic with Nord Stream

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On 14 January, Prime Minister Petr Necas opened the Gazelle gas pipeline at the Czech-German border in the presence of representatives from Germany and Russia. Gazelle is the extension of Nord Stream's branch running through the Czech Republic. Gazelle, with an annual capacity of 30 billion m<sup>3</sup>, has provided a connection between the Opal gas pipeline, which is used to transport Russian gas from Nord Stream via eastern Germany to the south, and the Megal gas pipeline, which transports gas through the southern regions of Germany to France. This pipeline is connected to the Czech transport network in four places. Thus, in emergency situations, it can also be used by Czech recipients. Gas will predominantly be transported from the north to the south. However, a reversal of the transport direction will also be possible.

The construction of Gazelle has been one hundred per cent financed by a Czech company named Net4Gas, transmission system operator, which is owned by Germany's RWE. However, RWE has announced it will withdraw from the Czech market by the end of this year. This means that the Czech gas transmission network (including both Gazelle and the Czech section of the Bratstvo gas pipeline) will have a new owner.

### Commentary

- Gazelle is primarily a transit gas pipeline. Its role is to streamline gas transport from Saxony to the southern regions of Germany and to France. However, this investment has improved the energy security of the Czech Republic, which imports over 64% of its gas from Russia (the rest is supplied from Norway and spot markets). The connection of the Czech and German transport networks in Brandov, at the border between the two countries, will allow the Czech Republic to diversify the routes of Russian gas supplies and offer an alternative to imports using the Bratstvo pipeline running through Ukraine and Slovakia. It is already the case that more Russian gas is supplied to the Czech Republic via Germany than via Slovakia. The management of Net4Gas has announced that this trend will continue. In the longer term, this may mean that Slovakia will also receive gas supplies from Nord Stream via the Czech Republic.

- The launch of Gazelle will contribute to a further reduction of the role played by the Bratstvo pipeline in exports of Russian gas to Western Europe, thus reducing the significance of Ukraine and Slovakia as transit countries. Last year, gas transport via Slovakia was reduced by over 23% in comparison to 2011. Further investments which increase the number of recipients of gas from Nord Stream coupled with continuing low gas consumption in Europe (it remains lower than before 2009) will cause a further reduction in gas transit via Ukraine and Slovakia.
- The Czech-Slovak Energetický a průmyslový holding (EPH) seems the most likely to buy the gas operator from RWE. Its main competitor in the takeover of Net4Gas is the Czech group KKCG, which extracts crude oil in Moravia. EPH – whose key shareholders are Petr Kellner (the richest man in the Czech Republic) and the Slovak financial group J&T – at the end of 2012 bought stakes in Slovenský plynárenský priemysel (SPP) from E.ON Ruhrgas and GDF Suez and thereby took control of the Slovak gas operator and consequently also of the Slovak section of Bratstvo, the Eustream gas pipeline. The outcome of the negotiations RWE is holding with EPH and KKCG is expected to be known in the course of the next few months.