

Russia: Gazprom has activated Nord Stream's second pipeline

Ewa Paszyc

8 October saw the opening ceremony for the second pipeline of Nord Stream, the direct route for Russian gas from Vyborg (Russia) to Greifswald (Germany) via the Baltic Sea. This action means the two pipes of the gas main have now reached their target capacity of 55 billion m³. The construction of a new gas pipeline on Russian territory linking the Western Siberian deposits to Nord Stream (along the Griazoviets-Vyborg route) is still required to complete the investment, a process which should be achieved by the end of this year. Gazprom's CEO Aleksei Miller announced that a memorandum on constructing two more Nord Stream pipelines, including one to the UK, will be signed before the end of this year.

Commentary

- The increased capacity of Nord Stream increases Gazprom's room for manoeuvre with its gas transport routes, and brings closer the main aim of this project: to reduce the share of the transit countries, principally Ukraine, in the transit of Russian gas to Europe. It is possible that in order to fill the two pipelines, Gazprom will redirect to the new route some of the gas (about 40 billion m³) from the Ukraine network, which over the past decade has transported about 120 billion m³ per year (although as a result of the crisis, this figure was only slightly over 100 billion m³ in 2011; a figure of 80 billion m³ is planned for 2012). This would be technically feasible, with certain expenditures to expand the transmission networks in Germany.
- The unfavourable economic climate for producers on the European gas market (lower demand, together with an oversupply of raw materials and increased competition) and Gazprom's inflexible pricing policy (Russian gas prices in long-term contracts are the highest on the European market) call into question the construction of any further pipelines. It was in fact something of a problem to fill the first pipeline, which so far had only used about 30-40% of its capacity. During 11 months of operation it transported about 9 billion m³ of gas (although it has an annual capacity of 27.5 billion m³). Further challenges to the Russian company's position on the European market could be posed by the growth forecasts for LNG imports (including from Qatar and the United States), and the prospect of extracting gas from unconventional sources (especially shale gas).

- Information on plans to build more pipelines for Nord Stream is vague. No details have been given about the technical specifications of the new main; nor is anything known about new contracts for the supply of Russian gas. The only concrete information is that one of the new pipelines could be directed to the UK. It is therefore possible that the plans for any further expansion of Nord Stream are purely declarative. The intended audience for these statements is most likely Ukraine, which if this investment is realised would lose its status as a transit country for Russian gas. The only beneficiary of the construction of further Nord Stream pipelines would be the private companies implementing these projects (and whose owners are close friends of Vladimir Putin).

Ewa Paszyc, in cooperation with Szymon Kardaś