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Central European problems with Russian gas supplies

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Since 8 September a number of Gazprom's gas customers in the EU, above all in Central Europe, have been receiving less gas than they requested. Poland's PGNiG has reported lower supplies; last week it received on average approximately 20% less gas than the it ordered from the eastern direction. The cut in supplies was record-high on Wednesday 10 September when it reached 45%. It has also been reported that since 10 September gas supplies to Slovakia's SPP have been at a level lower than ordered (cuts by around 10% until 15 September and by 25% on 16 September). Austria has also received lower volumes of gas via the route running through Ukraine and Slovakia (the Austrian regulator, E-Control, reported an approximate reduction of supplies of 15% on 11 and 12 September). The Romanian government also released information about cuts in Russian gas supplies (by 5%) on 12 September. Furthermore, the Romanian government was warned of the possibility of reduced supplies in the future. In parallel to the decreased gas supply, the transit of Russian gas via Ukraine and Slovakia has been reduced: a clear reduction from the average level of around 60 million m3 daily in the first half of September to less than 50 million m3 daily has been observed since 15 September. The problems with Russian gas supplies, even though the reductions scale is relatively small and the EU's gas storage facilities are full, have complicated the situation on the Central European gas market, making it necessary to launch alternative imports. They have also further increased concerns about the security of supplies. All this has also made reverse gas flows from the EU to Ukraine more difficult. These moves can be interpreted as a demonstration that Russia is prepared to temporarily withhold gas supplies to Europe should its key demands concerning regulating gas relations with the EU and Ukraine not be met. They can also be a stress test for the impact of such decreases on the EU market and politics in the context of the approaching winter season.

The possible causes of the supply cuts

Gazprom has to date not provided any official reasons for its failure to deliver the ordered volumes of gas to its European customers. The media reports of the accelerated filling of gas storage facilities in Russia appear to be a rather incredible explanation for the lower than requested supplies, don't explain either why Central-European recipients have been affected the most (no cuts have been observed in gas supplies via Nord Stream or to Turkey). One of the reasons for the present situation may be the Russian strategy of reducing gas transit via Ukraine, which has already been seen for years and has recently gained in intensity. According to data from Slovakia's transmission system operator, Eustream, the average transit volume at the entry point in Velke Kapusany on the Ukrainian-

Slovak border in the first half of September this year was around 68% lower than the average volume in the same period last year, and it continued to fall. As the autumn-winter season is approaching, gas demand of European customers is increasing. Meanwhile, it is no longer possible to redirect more gas from the Ukrainian route to the alternative routes for Russian gas supplies to the EU: Gazprom has already fully used the capacities available to it in the Yamal-Europe and Nord Stream. However, Gazprom's reduction of transit via Ukraine is not sufficient to explain the cuts in supplies to Poland's PGNiG, which receives Russian gas (and experienced reduced supplies) also through entry points on the Polish-Belarusian border (Vysokoye and Kondratki).

Reduced supplies fit in well with Gazprom's strong criticism of the launch of reverse flow gas supplies from the EU to Ukraine (initially via Poland and Hungary and since 2 September also via Slovakia) which have been voiced for some months, along with its warnings (as referred to, for example, by *The Financial Times* last week) that gas supplies would be withheld to countries which make reverse flows possible. It appears that the Russian side thus wishes to force the EU to adopt such solutions enabling to regulate Moscow's gas relations with the EU and Ukraine in a way that would best serve Russia's interests (for example by preventing the integration of the Ukrainian gas sector with EU one and the implementation of EU gas law in Ukraine, or granting exemptions from the application of selected EU law rules for OPAL gas pipeline and the planned South Stream pipeline).

The consequences of the cuts

The reduced gas supplies from Russia have so far had relatively limited adverse impact on the situation on the EU gas market, due to the small scale of the reductions, the relatively low demand for natural gas in the EU, the full gas storage and the relatively low prices of the gas sold on the market, which can be used to supplement supplies to the internal markets (this is practised, for example, by PGNiG). However, the reduced supplies from Gazprom have complicated the operation of the gas systems in individual countries which have been forced to launch supplies from alternative directions. Along with the cuts in gas transit volumes, they have caused a reduction in the gas pressure in export pipelines, making their efficient functioning more difficult. All this is adding to the uncertainty about the stability of supplies and the reasons behind Gazprom's behaviour. Furthermore, the reduced volumes of gas supplied to and transited via Central European countries are adversely affecting the prices and the availability of gas in the region; and this makes the conditions of reverse gas supplies to Ukraine more difficult. Thus it cannot be ruled out that the Russian side is using the recent gas supply cuts from Gazprom to the EU as a stress test checking the market and the political consequences of situations of this kind in the context of the approaching winter season.

The problems with Russian gas supplies to some Central European countries and the need to launch supplementary supplies from the West (mainly Germany) may also be used as an argument to allow Gazprom the use of the OPAL gas pipeline at full capacity by granting it full exemption from the TPA (third-party access) rule. Russia has been expecting the European Commission to rule on this for some time now, but the decision has been postponed once more, this time until the end of October. This exclusion would make it possible for more Russian gas to be supplied directly to the German market (an additional

18 bcm via the Nord Stream and OPAL gas pipelines). This in turn would facilitate alternative supplies to the Central European markets in case of potential problems with gas supplies from the eastern direction. However, EU consent to a full exemption of OPAL from the TPA rule would entail a further redirection of gas transit from Ukraine and Slovakia to Nord Stream, and thus a higher risk of problems with gas supplies in the winter season – in both Ukraine and Central Europe.

Conclusions

The recent problems with Russian gas supplies occurred directly after the launch of the reverse flow gas supplies to Ukraine via Slovakia (2 September), for which the EU had been lobbying for more than six months, and one week ahead of the expected EU decision regarding OPAL, Russia's strategic gas pipeline. They thus fit in with the previously observed pressure which Moscow had put on Brussels with the intention of guaranteeing solutions that would be beneficial for itself, and they could be interpreted as an increasingly clear threat of causing a gas crisis should the EU refuse to meet its demands.

At the same time, it has once again been confirmed that, as regards the consequences of disruptions in gas supplies and transit from Russia, it is the countries of Central Europe which are exposed to the highest risk.

Appendix

Imports from Russia vs. gas consumption and reserves in Central European countries

Country	Gas consumption (bcm)	Imports from Russia (bcm)	Storage facility volume (bcm)	Storage capacity utilisation
Poland	16.7	9.6	2.52	99%
Czech Republic	8.4	7.2	3.27	99%
Slovakia	5.4	5.3	3.18	94%
Hungary	8.6	5.9	6.17	59%
Romania	12.5	1.3	3.1	81%
Bulgaria	2.6	2.6	0.55	76%
Austria	8.5	5.1	4.67	95%

Data as provided by: BP *www.bp.com* (2013), IEA (2013), Gas Infrastructure Europe: transparency.gie.eu (data as of 17 September 2014) and Romanian Ministry for Energy (data for September 2014)

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