

Gazprom's pressure on Europe

Iwona Wiśniewska

In recent weeks, Gazprom has stopped reserving any transmission capacities in the Yamal pipeline and the Ukrainian transit network at both the annual and quarterly auctions. Representatives of the group stated that it has abandoned long-term bookings as it has sufficient transmission capacity to meet its current contractual obligations, and also emphasised the possibility of flexible booking of additional capacity at short-term auctions. At the same time, despite Gazprom's assurances that gas production will rise from January to mid-August this year by over 18% y/y, to 316.5 bcm (i.e. by over 48.5 bcm), as will exports to the so-called further abroad (Europe excluding the Baltic states and Turkey) by almost 22% to 123 bcm (exports to Turkey have increased the most, by 188%; and to Germany, by 41%), the company's rate of utilisation of its European gas storage facilities remains extremely low. As of 22 August, the levels stood at 41% in Haidach (Austria), 4% in Rehden (Germany) and 17% in Bergermeer (the Netherlands), while in the same month of 2019 the figure was around 90%. The company's priority is to fill the reservoirs in Russia, which were almost completely emptied during the previous winter season (61 bcm of gas out of 72 bcm were used). In addition, a breakdown in Gazprom's gas condensate processing plant in Novoy Urengoy on 5 August resulted in restrictions on transmission via the Yamal-Europe gas pipeline and the sale of gas on the St. Petersburg exchange.

Commentary

- The current difficult situation on the gas market in Europe has been caused by the growing demand for gas in connection with the recovery of economies after the pandemic, the implementation of more ambitious climate policy, and the changes taking place on global and regional markets. The gas shortage in Europe has also been influenced by the gas prices in Asia, which remain more attractive; difficulties in attracting sufficient LNG supplies onto the EU market; and the slowdown in the growth rate of global gas production (in the first half of 2021 US companies produced less gas than before the pandemic; the LNG terminals in Egypt, Trinidad and Tobago have also under-performing). As a consequence, the average rate of utilisation of gas storage facilities in Europe is very low for this time of year: on 22 August, they contained only about 72 bcm of gas (i.e. 64% of their volume) – over 30 bcm less than in 2019. The growing uncertainty in the EU as to the resources available during the winter has contributed to the price rise. In mid-August, 1000 m³ of gas in futures contracts in the Dutch TTF hub cost as much as US\$580 (the most since 2008; in 2019, the price was US\$120).

- Gazprom's forecasts say that gas production will reach 506 bcm in 2021, which would mean an increase of almost 12% compared to 2020 and 1% compared to 2019. The company has stated that in recent weeks it has been supplying gas to both the domestic and foreign markets at the level of the winter months, when consumption is the highest. The company's data shows that gas production and exports did not decrease, despite the breakdown at the Novoy Urengoy plant. This serves Gazprom's main gas production region, the Urengoy, Zapolarnoye and Yambur fields. They resumed operations on 9 August, but the scarcity of information does not make it possible to identify the scale of the damage. The available data shows that Gazprom has received support from the private company Novatek, which took over some of the condensate, and has been processing it at its plants in the region.
- Despite the rises in production and exports, Gazprom is still unable to meet the high demand in Europe in the short term. In order to fill its gas storage facilities in Russia, it must send 16 bcm more gas to them than in 2019 (at comparable production levels). Reports on its storage facilities in the Russian Federation are selective, so it is unknown how long it will take to refill them. The low stocks in Gazprom European reservoirs are also a cause for concern. In recent weeks, instead of filling them up, the company used the gas they contained to meet its European contracts (including during the failure of the Urengoy plant). As a result, the state of Gazprom's storage facilities is well below the – already very low – average European level.
- Gazprom is trying to take advantage of the situation to increase pressure on Europe and improve its position on this market. The further increase in gas prices was caused, among other factors, by reports that the company has stopped reserving annual and quarterly transmission capacities in gas pipelines running through Poland and Ukraine, as well as the low levels filling its reservoirs and the technical failures in its processing plants. The company estimates that the average price of gas exported to Europe in 2021 will be around US\$270 per 1000 m³ – more than twice as much as in the previous year.
- Gazprom's actions are also aimed at ensuring Nord Stream 2 will be launched as soon as possible and that its full capacity can be used. It is not known how this could be achieved – considering the application of the relevant procedures, the letter of EU law, and the US-German agreement on Nord Stream2. On 19 August, the company announced on its Telegram account that it intends to send 5.6 bcm of gas through this pipeline to Europe by the end of this year. The news sent the price of gas below US\$500 per 1000 m³ in the short term. The launch of NS2, which should take place in October, is presented as a godsend for the European market, especially the German one (the reservoirs in this country are only 56% full), even though the free transit capacity in the existing infrastructure allows for the delivery of additional quantities of gas onto the European market.