Gazprom’s vision of competitive gas market in the EU

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Forecast for additional import of natural gas in the EU*

Range of additional import (compared to 2016), bcm

According to the forecasts, additional demand (base year 2016) for natural gas import in the EU by 2035 amounts to approximately:

from 33 bcm up to 94 bcm

In light of expected demand for natural gas in the EU and declining indigenous production, the demand for an imported natural gas is increasing

*Views expressed in this presentation are the author’s sole responsibility and do not necessarily represent that of Gazprom Export

Sources: IHS Markit, WoodMackenzie
Current emergence of new exporters of natural gas will increase competition on regional markets. However, Gazprom has evident competitive advantages compared with other exporters.
Gazprom is the largest supplier of natural gas to EU, providing more than 30% of demand for natural gas and successfully covering peak demand of the winter season.

Sources: Gazprom PJSC, Gazprom Export LLC
Various gas trade forms used by Gazprom

Trading on the European hubs in Gazprom is organized via Gazprom Export LLC and other subsidiaries. There is a direct competition with our customers, which sell a natural gas, bought under a long-term contract, on the European hubs.

Gazprom increases an economic efficiency of its sales, using various forms of gas trade, incl. trading and auctions.

Sources: Gazprom PJSC
High competition on a wholesale market

Natural gas prices trend in Europe and full marginal costs of US LNG Supplies to Europe

Despite a high market concentration on supply side, there is no possibility to manipulate market prices due to hypothetical competition with LNG from US.

The full marginal costs of US LNG Supplies to Europe is a price limit for European market (currently: 7-8 USD/mmbte or 240-280 USD/mcm).

Sources: Bloomberg, Cedigaz, Cheniere Energy, Wood Mackenzie
High competition on a retail market

Price structure on the retail market of Germany*

The European retail market is characterized by a high competition among suppliers. Our traditional customers are forced monetize our obligations under long-term contracts via trading.

*Does not include VAT
Sources: BAFA, Bundesnetzagentur.

Share of trading in sales Gazprom’s customers

Source: financial reports of the companies
The share of Gazprom on the niche segments of market is growing

Main directions for exports of a small-scale LNG by Gazprom Export

**Gas in European transportation**

- Total forecasted demand for gas in transportation (CNG and LNG) by 2030 estimates **24 bcm per annum**.*
- Addition demand for CNG creates a potential for additional exports to Europe for Gazprom

**Gas-to-Power**

- Deliveries to power stations in Hungary and FYR Macedonia under tolling-scheme – up to 250 mmcm
- Perspective expansion of this contract scheme in accordance with forecasted gas demand in electricity generation by 24 bcm by 2030 and by 39 bcm by 2035

* Source: IHS Markit

Forecasted demand for small-scale LNG on the European market

Sources: Gazprom PJSC, Gazprom Marketing&Trading Ltd., Gazprom Export LLC
Optimization of gas transportation routes

Optimization measures:

- Use of existing and development of prospective gas transportation routes for gas supplies to the EU
- Active use of European storages for optimal regime of supplies to the European customers
- Use of geographical and time swaps with other market participants

Gazprom has a variety of optimization measures for its gas exports to the EU
High capacity load of the existing infrastructure is a limit for export activities of Gazprom. The Ukrainian route might become an extortion instrument by introduction of excessive transit fees. In this case the European customers will be forced to buy a more expansive gas from USA.

Sources: Bloomberg, ENTSOG, Gassco, GIE, HIS Markit, Snam Rete Gas, Ukrtransgaz, Gazprom Export LLC
Conclusions

1. Demand for gas imports is increasing what will lead to a challenge of additional volumes allocation for suppliers

2. Role of Gazprom today is security of supply and flexibility incorporated into LTC

3. New ways of trading force tough competition on trading platforms between gas of Gazprom and gas of our partners’

4. Deliveries from new LNG projects create a competitive price benchmark

5. Gazprom is investing into new niche market for final consumption

6. New delivery routes provide reason for local and regional infrastructure construction
Thank you for your attention!