

Russian energy policy: highlights

Vladimir Milov

Moscow, October 7th, 2016

Is there a need for Nord Stream-2 or South/Turkish Stream?

	(bcm/y)
‣ Nord Stream-1	55
‣ Blue Stream	18
‣ Yamal-Europe	33
‣ Gazpom Transgaz Belarus (est.)	30
‣ Ukrainian GTS (est.)	143
‣ TOTAL	279
‣ Gazprom's exports 2016 (est.)	165

Ukraine's “transit unreliability” fact-check

- NOT A SINGLE court-proven case of “stealing” of Russian transit gas by Ukraine in 25+ years
- Ukraine provides one of the cheapest transit rates
- Upgrade costs for Ukrainian GTS = but a fraction of cost of building “streams”
- Conflicts w/Ukraine resulting in gas transit interruption ALWAYS initiated by Moscow

Hypothesis of "advantages" of "streams" vs UKR transit not supported by facts

Since the inception of Nord Stream-1 in 2011

- Gazprom's total transit costs
per tcm of exported gas **↑ 16%**
- Volume of transit via Ukraine **↓ 35%**

(Source: Gazprom IFRS reports, MD&A, transit costs in USD (under the exchange rates of relevant periods), divided by total exports, H1 2016 vs H1 2011)

Gazprom's unwillingness to comply with EU rules may reproduce problems

- Gazprom demands 100% exemption from EU rules for Nord Stream's surface extension (Opal)
- EU disagrees
- As a result, about 30% of Nord Stream's capacity remains frozen
- Same thing is highly likely to happen with Nord Stream-2

Turkish Stream: more a bilateral RU-TURK story than a major European project

- TS is down to two lines (which roughly corresponds to Russia's exports to Turkey = no excess capacity for extra gas)
- Dropping the gas at Greek-Turkish border, with no existing South-to-North infrastructure to deliver it way up to the EU, is utter nonsense
- No solution as to how EU consumers will get access to TS-delivered gas exists so far

Russia-China: cooperation checklist

- Power of Siberia 
- Yamal LNG 
- Eastern Petrochemical Complex 
- Western Route (Altai) 
- Contract for Sakhalin supplies 
- Vladivostok LNG 
- Vankor 
- Privatization of Rosneft 
- Joint drilling in Barents/Pechora seas 

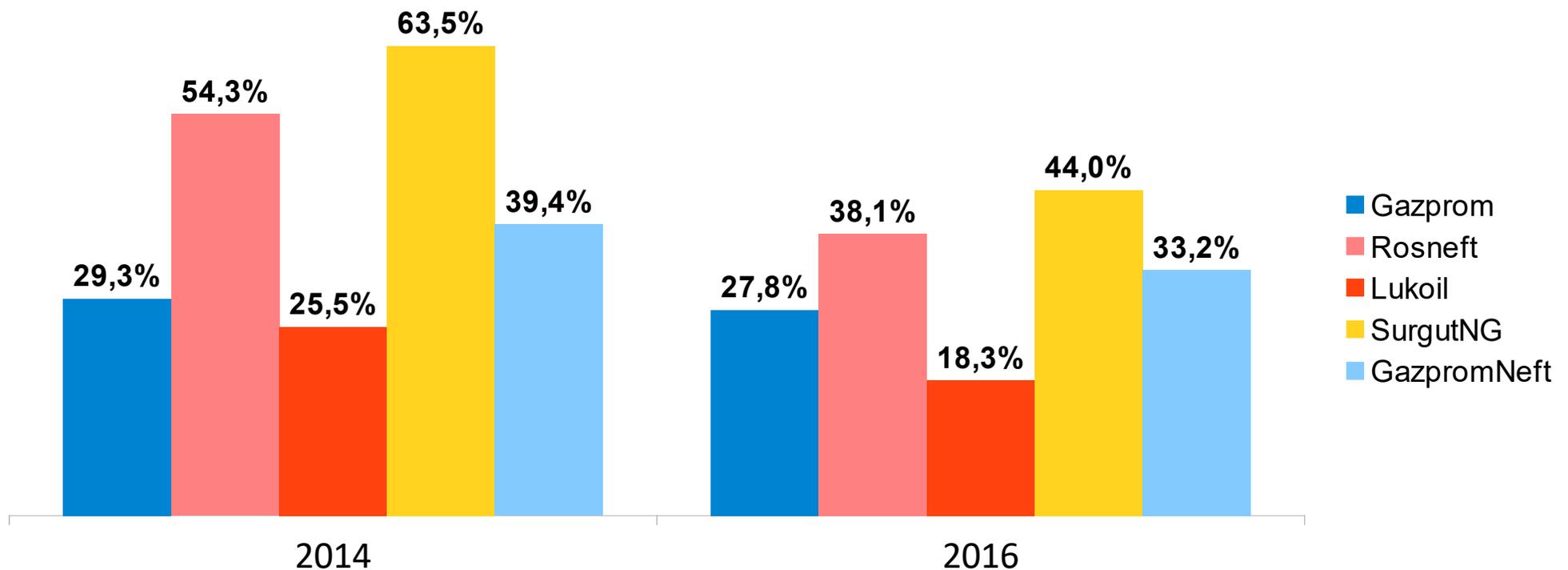
“Power of Siberia”: lagging behind

- Initial plan for 2015-2016: ~1000 km (30%)
- Currently build: >200 km (6%)
- Total length: 3,245 km

- Construction plan for 2016 cut down from 800 to 400 km

Bottom line on tax changes for oil & gas companies: they'll be OK

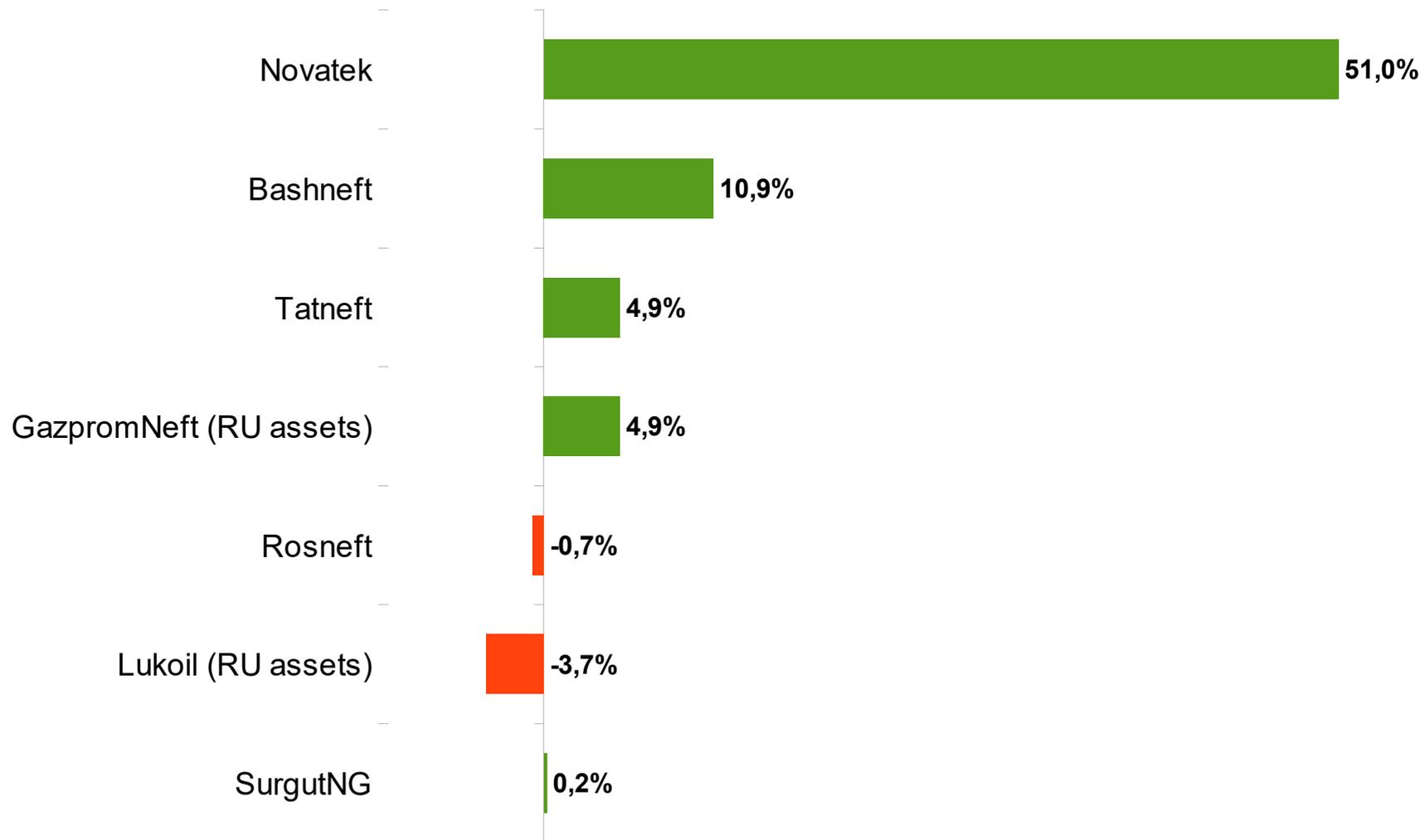
Total taxes as % of revenue, H1 2016 vs H1 2014 (source: IFRS reports)



(Gazprom is visibly undertaxed.)

Oil output growth: biggest leap by small producers = foundations not strong

Oil output in H1 2016, yoy (%) (source: IFRS reports)



Behind record output highs: largest subsidiaries of RU majors not doing well

Oil output in H1 2016, yoy (%) (source: IFRS reports)

