Russia Gas Strategy in Eastern Europe

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Introduction

In 2021, the Russian 50% state-owned[1] national energy company, holding a monopoly in the production and supply gas sector – *Gazprom* – produced 514.8 billion cubic meters (Bcm) of natural gas, 62.2 Bcm more than the previous year. Beyond FSU (Former Soviet Union) countries, 185.1 Bcm has been supplied, surpassing 5.8 Bcm of the 2020 delivery[2]; the primary markets being the European gas market with an allocation of almost 175 Bcm, given the estimated approximate 10 Bcm gas supply to the rising Chinese market, as remarked by Gazprom Deputy Chairman of the Board of Directors and Chairman of the Management Committee (CEO) Alexey Miller in a press release on the 17th of September 2021[3]. By analyzing the company's 2020 Annual report[4], approximately 78% of the total gas export towards the European Union was delivered to the Western European market, while only a 22% to the Eastern European – the percentages adapting to the 2021 exports total amount in the two European markets, yet to be released.

The Eastern European gas market is a market frequently ignored due to the small percentage of imports compared to the European total, yet no less significant to the Russian Federation because of its proximity to the Russian national-territorial border and its role as a transit region for Russian natural gas export towards Western European countries. Noteworthy is highlighting that Gazprom identifies the Eastern European gas market in the combination of two distinct European markets[5]: the Central and Southeast European gas markets. To be specific, the countries referred to are as follows: Bosnia & Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, North Macedonia, Poland, Romania, Serbia, Slovakia, Slovenia, including Greece and Turkey, which are frequently also indicated as part of the Western European gas market, and, lastly, Ukraine, part of FSU countries gas delivery, but whose role is essential in the developing of Russia's energy strategy in Eastern Europe.

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[1] Gazprom, *Gazprom Annual Report 2020*, 2020, https://www.gazprom.com/f/posts/13/041777/gazprom-annual-report-2020-en.pdf

[2] Gazprom, *Alexey Miller: 2021 was Gazprom's record-breaking year, 2022,* https://www.gazprom.com/press/news/miller-journal/2022/265652/

[3] Gazprom, *Speech delivered by Alexey Miller at "Challenges and Opportunities at the Growing Energy Markets in Asia" conference (General Meeting of International Business Congress), 2021,* https://www.gazprom.com/press/news/2021/September /article537938/

[4] Gazprom, *Gazprom Annual Report 2020*, 2020, https://www.gazprom.com/f/posts/13/041777/gazprom-annual-report-2020-en.pdf

[5] Gazprom, *Gazprom Annual Report 2020*, 2020, https://www.gazprom.com/f/posts/13/041777/gazprom-annual-report-2020-en.pdf. See also Gazprom, section related to Europe, https://www.gazprom.com/about/marketing/europe/

Gazprom's Strategy

Following Gazprom's business strategy[6] in the region – by the 9th of June 2020 signed the Energy Strategy of the Russian Federation for the period 2035 *(*Decree No 1523-p)[7] and on the 6th of June 2011 General

Scheme for the Development of the Gas Industry of the Russian Federation for the period 2030[8] *(*Decree No 213)*,* subsequently prolonged to 2035 on the 28th of November 2014[9] and confirmed during a Government meeting on the 13th of May 2021[10]– the primary objectives consist in the preserving and strengthening of the company leader position in the regional gas market, ensuring of energy security, and maintaining of a flexible response to gas market dynamics through a single export channel system, long-term contracts, and pipeline routes diversification and expansion. Diversification, a keyword to Russia's strategy in the Eastern European gas market, inasmuch as through the development and extension of a major alternative transmission project – Turk Stream 2 – Russia aims at ensuring reliable, risk-free, and uninterrupted energy delivery, bypassing third countries, namely Ukraine.

Gazprom gas pipelines towards Eastern Europe

The main pipeline routes used are:

- Yamal-Europe [11]– 2,000 km and full capacity of 32.9 Bcma – started in 1994 and running from the Torzhok gas transmission hub in the Tver Oblast to the Mallnow compressor station near Frankfurt an der Oder in Germany, via Belarus and Poland;

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[6] Минэнерго России*, Генеральная схема развития газовой отрасли на период до 2030 года. Утверждена приказом Минэнерго России от 6 июня 211 г. No 213, 2011,* https://policy.asiapacificenergy.org/sites/default/files/General%20Scheme%20for%20the%20Development%20of%20Gas%20Industry%20until%202030%20%28RU%29.pdf

[7] Правительство Российской Федерации**,** *Распоряжение от 9 июня 2020 г. No 1523-р.*, 2020, https://policy.asiapacificenergy.org/sites/default/files/Energy%20Strategy%20of%20the%20Russian%20Federation%20until%202035%20%28Government%20Decree%20No.%201523-P%20of%202020%29%28RU%29.pdf

[8] Министерство энергетики Российской Федерации, *Генеральная схема развития газовой отрасли на период до 2030 года*, 2011, https://policy.asiapacificenergy.org/sites/default/files/General%20Scheme%20for%20the%20Development%20of%20Gas%20Industry%20until%202030%20%28RU%29.pdf

[9] Аналитический центр при Правительстве Российской Федерации, *Эксперты обсудили проект генеральной схемы развития газовой отрасли*, 2014, https://ac.gov.ru/news/page/eksperty-obsudili-proekt-generalnoj-shemy-razvitia-gazovoj-otrasli-4245; https://ac.gov.ru/archive/files/content/4245/kruglyj-stol-rabochij-spisok-uchastnikov-28-11-ak-2-itogo-pdf.pdf

[10] Правительство Российской Федерации, *Решения, принятые на заседании Правительства 13 мая 2021 года*, 2021, http://government.ru/news/42175/

[11] Газпром, *«Ямал — Европа»* https://www.gazprom.ru/ projects/yamal-europe/

- Brotherhood Gas Pipeline [12]– 4,451 km [13]full capacity of 28 Bcma – started in 1967[14], running from the Urengoy gas field in northwest Siberia to the border between Ukraine and Slovakia. At the border, the gas pipeline is divided into two branches, one going to the Czech Republic and the other to Austria, pivotal for the delivery of Russian natural gas to Slovenia and Italy. The Brotherhood route, on the one side, coincides with the border between Russia and Ukraine with the Progress pipeline – 4,590.7 km and full capacity of 26 Bcma – reaching Slovakia; and in Ukraine, on the other, with the Soyuz pipeline – 2,675 km and full capacity of 32 Bcma – reaching Hungary, Slovakia, and Romania[15];
- Blue Stream[16] – 1,213 km and full capacity of 16 Bcma – starting in 1997, running from Russia to Turkey, via the Black Sea, bypassing the Trans-Balkan Pipeline – TBP via Ukraine, Moldova, Romania, and Bulgaria;
- TurkStream[17] – approximately 930 km and full capacity of 15.75 Bcma each of the two branches – started in 2014, running from Russkaya compressor station near Anapa in Russia to Kiyikoy in Turkey via the Black Sea.

TurkStream 1 and 2

The Blue Stream pipeline represented the Russian Federation's first attempt to bypass third-country gas transfers. Indeed, it was a viable alternative[18] to the Trans-Balkan Pipeline (TBP) for supplying gas to Turkey. In 2014[19], the TurkStream project, a new pipeline aiming at providing gas to Turkey and Central and Southeast European countries, emerged as a potential transmission option. Following the opening ceremony on the 8th of January 2020[20] in Istanbul, it became operational with the online going of TurkStream 1. The pipeline, indeed, encompasses two strings: TurkStream 1, running from Russia to Turkey for internal consumption, and TurkStream 2, running from Turkey to Central and Southeast European gas markets. By the end of January 2020[21], Gazprom had already delivered the first Bcm through TurkStream, 54% to the Turkish domestic market and 46% to the Turkish-Bulgarian border. As a result of ensuing existing pipelines transmission capacities improvement and a new pipeline development between the Serbian GASTRANS d.o.o. Novi Sad and the Bulgarian Bulgartransgaz EAD – the Balkan Stream Pipeline[22], a 474km pipeline with a full capacity of 20

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[12] Газпром, *Система газопроводов Уренгой — Помары — Ужгород,* https://proektirovanie.gazprom.ru/press/ehntsiklopediya-proektirovshchika/krupnejshie-proekty/urengoj-pomary-uzhgorod/
[13] Группа ЧТПЗ, *Уренгой - Помары – Ужгород,* https://chelpipe.ru/about/realized-projects/urengoy-pomary-uzhgorod/
[14] Газпром Экспорт, *Транспортировка,* http://www.gazpromexport.ru/projects/transportation/
[15] Газпром Экспорт, *Транспортировка,* http://www.gazpromexport.ru/projects/transportation/
[16] Газпром, *«Голубой Поток»*, https://www.gazprom.ru/projects/blue-stream/
[17] Gazprom, *TurkStream gas pipeline officially launched in grand ceremony,* 2020, https://www.gazprom.com/press/news/2020/january/article497324/
[18] Газпром Экспорт, *Турция*, http://www.gazpromexport.ru/partners/turkey/
[19] Gazprom, *New Gas Pipeline towards Turkey,* 2014, https://www.gazprom.com/press/news/2014/December/article208505/
[20] Президент России, *Церемония ввода в эксплуатацию газопровода «Турецкий поток»,* 2020, http://kremlin.ru/events/president/news/62553
[21] Gazprom, *First billion cubic meters of gas supplied via TurkStream,* 2020, https://www.gazprom.com/press/news/2020/january/article498525/
[22] Bulgartransgaz, *2020-2029 ten-year Network Development Plan of Bulgartransgaz,* 2020, https://www.bulgartransgaz.bg/files/useruploads/files/amd/TYNDP%202020-2029%20EN.pdf

Bcma –, Gazprom started gas delivery through TurkStream to Serbia [23]on the 1st of January 2021, with subsequent redistribution in Bosnia & Herzegovina, Greece[24], North Macedonia, and Romania. Thanks to these developments, in 4Q 2021, a substantial increase in gas supply[25] was recorded – Turkey (+83.7 percent), Romania (+221.8 percent), Serbia (+85.8 percent), Bulgaria (+43.8 percent), Poland (+7.5 percent), Greece (+12.2 percent), and Slovenia (+53.9 percent) – as well as the signing of new long-term contracts, such as with Greece in June 2020[26] and a 15-year contract with Hungary in September 2021. Furthermore, on the 10th of October 2021, following an additional pipeline expansion in Hungary with the construction of a new turkline by FGSZ Ltd, Gazprom gas supplies started to run towards Hungary and Croatia[27].

Conclusions

As demonstrated by the above-mentioned data, Russia's probable strategy in the Eastern European gas market is to transform Turkey into the new gas transit hub for Central and Southeast European countries, excluding thus Ukraine. An objective that will very likely be fully achieved with the future completion of TurkStream 2, whose final point would be the Baumgarten hub in Austria[28], and Nord Stream 2[29], the Nord Stream 1 twin pipeline –1200 km long and a full capacity of 55 Bcm – running from the Ust-Luga area of the Leningrad Region in Russia to the Greifswald area in Germany across the Baltic Sea: currently awaiting for German certification[30]. At that point, Ukraine could be almost certainly utterly abandoned as a transit country for both Russian gas supplies to Eastern and Western European markets.

Yet, it is worth remembering the package of documents[31] agreed on the 20th of December 2019 between Gazprom and the Ukrainian Naftogaz, securing a five-year gas transit of 225 Bcm, 65 Bcm in 2020, and 40 Bcm each year for the years 2021-2024. Consequently, Russia will almost certainly continue to use Ukraine for gas transportation until expiration. Furthermore, despite an increase in gas exports to numerous Eastern European countries in 2021 and the signing of new long-term contracts, the Russian Federation's monopoly in the Southeast European gas market is likely to experience gradual erosion. The signed Bulgarian Bulgargaz

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23 Gazprom, *Gazprom begins gas supplies to Serbia via new route starting from January 1, 2021*, https://www.gazprom.com/press/news/2021/january/article521930/

24 T. Tsolova, "Russia begins TurkStream gas flows to Greece, North Macedonia", *Reuters*, 2020, https://www.reuters. com/article/us-russia-bulgaria-gas-idUSKBN1Z40D0

25 Gazprom, *Gas production and supplies results for 11 months*, 2021, https://www.gazprom.com/press/news/2021/december/article543988/

26 Gazprom, *15-year contracts signed for supplies of Russian gas to Hungary*, 2021, https://www.gazprom.com/press/news/2021/september/article538440/

27 Gazprom, *Supplies of Russian gas to Hungary and Croatia via new route commence,* 2021, https://www.gazprom.com/press/news/2021/october/article538916/

28 P. Cholakov, "Russia's proposed TurkStream 2 pipeline sparks Bulgaria, EU energy worries", DW, 2019, https://www.dw.com/en/russias-proposed-turkstream-2-pipeline-sparks-bulgaria-eu-energy-worries/a-47726458

29 Газпром, *«Северный Поток – 2»,* https://www.gazprom.ru/projects/nord-stream2/

30 DW, *German agency suspends certification for Nord Stream 2 pipeline*, 2021, https://www.dw.com/en/german-agency-suspends-certification-for-nord-stream-2-pipeline/a-59833502

31 Gazprom, *Package of documents signed for Russian gas transit across Ukraine to continue beyond 2019,* 2019, https://www.gazprom.com/press/news/2019/december/article497259/

and the State Oil Company of the Azerbaijan Republic (SOCAR) agreement[32] in December 2020 for the 25-year import of 1 Bcm via the Trans Adriatic Pipeline (TAP) is evidence. In addition, the Southern Gas Corridor's launch in the same period increases delivery competition, particularly in Greece. Indeed, the 3,500km long corridor includes three pipelines starting in the Caspian Sea: The South Caucasus Pipeline (SCPX)[33] to Azerbaijan through Georgia, the Trans Anatolian Pipeline (TANAP)[34] to Turkey, and the Trans Adriatic Pipeline (TAP)[35] to Italy via Northern Greece, Albania, and the Adriatic Sea. Moreover, a new Liquefied Natural Gas (LNG) terminal[36] with a capacity of 2.6 Bcm was inaugurated on the Croatian island of Krk in January 2021.

Concisely, Southeast European countries are starting to diversify their energy sources and suppliers.

[32] Council of Ministers of the Republic of Bulgaria, *Azerbaijan natural gas supply to Bulgari starts on 31 December,* 2020, https://www.gov.bg/en/Press-center/News/AZERBAIJAN-NATURAL-GAS-SUPPLY-TO-BULGARIA-STARTS-ON-31-DECEMBER

[33] BP Georgia, *South Caucasus Piepline Project,* https://www.bp.com/en_ge/georgia/home/who-we-are/scp.html

[34] TANAP, https://www.tanap.com/en/tanap-project

[35] Trans Adriatic Pipeline, *The Southern Gas Corridor*, https://www.tap-ag.com/about-tap/the-big-picture/the-southern-gas-corridor

[36] European Commission, *First Croatian LNG terminal officially inaugurated in Krk island,* https://ec.europa.eu/inea/en/news-events/newsroom/first-croatian-lng-terminal-officially-inaugurated-krk-island