
PIPELINE GAS OR LNG? UKRAINE DOESN'T KEEP ALL ITS EGGS IN ONE BASKET

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This article is part of our special report Ukraine gas transit: Whats at stake.

Ukraine has for decades counted exclusively on Russian pipeline gas, for its own use and for the lucrative transit taxes. But the tensions with Russia after 2014 and the low prices of LNG have changed the paradigm completely.

One of the least known secrets is that LNG from the United States has become highly competitive versus Russian pipeline gas. The unconventional gas revolution in the US has boosted the US economy and the countrys export capacity to 112 bcm/y as of 2020, more than doubling the capacity in just 18 months.

Freedom gas: US opens LNG floodgates to Europe

US energy secretary Rick Perry will sign two export orders for liquefied natural gas (LNG) in Brussels today (2 May), in a move officials said will double Americas export capacity to Europe to 112 billion cubic meters per year as of 2020.

According to the International Energy Agency, in 2018, Europe saved \$8 billion on its natural gas bills thanks to the import of US LNG. This huge difference is also the result of a downward renegotiation of Russian pipeline exports.

Even a country like Bulgaria, probably the most addicted to Russian pipeline gas, bought the first LNG from the US last May, at prices which were not disclosed. But as energy minister Temenujka Petkova said, they were lower than what the country pays for Russian pipeline gas.

Imports from the US are expected to grow substantially, after Bulgaria and Greece complete in 2020 the gas interconnector Stara Zagora-Komotini.

LNG is natural gas that is cooled to -161 C, at which point it becomes a liquid and occupies only 1/600th of its original volume, making it convenient for shipping. The process needs liquefaction plants, specially designed ships fitted with cryogenic cooling tanks, regasification terminals.

Russia says the process is very expensive and pipeline gas will always be cheaper. But Russia has also hugely overspent on developing gas in the northern Yamal peninsula and cannot push its price down.

The whole Russian strategy of having long-term contracts for imported pipeline gas is in shambles, as clients seek flexible commercial terms. As an example, it is impossible to imagine that the 10-year Russia-Ukraine gas transit contract expiring on 31 December 2019 could be renewed in terms similar to those of 2009.

31 December 2019: Will gas stop flowing?

The clock is ticking. The long-term gas transit contract between Russia and Ukraine is expiring on 31 December. Chances that the two sides would reach a comprehensive agreement before this date are slim. EURACTIV looks behind the scenes of the dispute.

Europes largest gas storages

As it is impossible to predict what will happen after 1 January, Ukraine doesnt keep all its eggs in one basket. One of the assets the country inherited from the former Soviet Union are the huge underground gas storages (UGS), the largest in Europe, located mainly close to the border with EU neighbours (Poland, Slovakia, Hungary, Romania).

These UGS, with a capacity of 31 bcm, can store gas purchased from the Baltic Pipe and Świnoujście LNG terminal in Poland.

Moreover, 10 bcm of storage capacity in the West of Ukraine is unutilised because of bottlenecks created by Gazprom. Unlocking those interconnectors between Ukraine and the EU will make those 10 bcm of extra storage available for traders.

Ukraines strategy is to accumulate gas when the prices are low and sell it to EU consumers during price increases, thus mitigating price spikes. The role of Ukrainian UGSs gets even more significant in balancing scenarios with gradually growing LNG influx to Europe.

Andrew Favorov, head of the Integrated Gas Business Unit at Naftogaz, told EURACTIV that Ukraine could also serve as gas storage for distant clients. He explained that the world gas production during the year is uniform, while the consumption is seasonal, peaking in the first and the last quarter.

The most profitable market for gas supplies is Asia, mainly Japan, South Korea and China. Therefore, gas producers target those markets for supplies. But the Asian countries do not have gas storages. The world gas summer production needs to be stored somewhere, and Ukraine has a huge potential for the commercialization of its storages. We see that this service is requested, he said.

Favorov also said that European independent traders already store in Ukraine significant volumes that were injected during the summer and will be used during the winter.

All the preconditions to make this business successful are there, he stressed.

An additional reason why Ukraine really needs to be prepared for a completely different gas business is the uncertainty about the two Russian pipelines bringing the Russian gas into Ukraine.

Reportedly, these have not been properly maintained over the last 30 years and there is a risk that Russian gas will stop flowing in Ukraine for purely technical reasons.

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