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MEDIUM-TERM PROSPECTS FOR RUSSIAN COOPERATION WITH EUROPEAN COUNTRIES IN THE NATURAL GAS MARKET

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Abstract

The purpose of the article is to study the prospects of cooperation in the world energy market and assess the role of Russia in the market. The situation in the world energy gas market is constantly changing. This is due to the divergence in the results of the analysis of the resource base, the assessment of the potential for production, the cost of energy resources, as well as different views on the competitiveness of gas in world markets. Thus, the US, instead of plans to increase gas imports, is becoming its exporter, which fundamentally changes the balance of forces not only in the Atlantic basin market, but also in all world trade. Europe is changing its priorities for gas cooperation, as well as its focus on supporting expensive options for decarbonizing energy systems. Russia continues to expand its participation in the global liquefied natural gas market through the introduction of gas projects and new agreements. Thus, the modern world economy, at the stage of its globalization, when competition is replaced by sanctions policies, is minimizing the ever-increasing transaction costs forces countries to change their areas of cooperation in such a way as not just to minimize these costs, but to do so by gaining additional benefits.

Keywords: Russia, Prospects, Turkish Stream, Nord Stream 2, Agreements, Development

1. Introduction

The purpose of the article is to study the prospects of cooperation in the world energy market and assess the role of Russia in it. In line with the objective, the following tasks were identified: to explore the dynamics and structure of the global energy market; to determine Russia's prospects in the global energy market; to justify possible options of cooperation between Russia and European countries in the world energy market in the medium term.

The object of the study is the global energy market. The subject of the study is a set of connections and relations arising from the functioning of the world energy market, as well as processes for the formation and improvement of interactions of energy companies in the world market.

The theoretical and methodological basis of the study was made up of fundamental and applied studies of domestic and foreign authors related to the functioning of the world energy market, with the identification of trends and prospects for its development. Thus, the relevance of the article is due to the fact that at present the very structure of world energy markets is rapidly changing, roles are redistributed among their main participants, new players are emerging and new regional markets are being formed, and existing ones are changing the rules of their functioning.

An assessment of the potential for energy extraction in the United States shows that an increase is possible until 2025-2030, but there is a high probability of a decline in production as the most attractive reserves are exhausted and project costs increase. However, according to experts, it is difficult to compete with American LNG in the European market in the near future. The difficulty lies in the development of Russian pipeline gas. Thus, a comparative analysis of average costs shows that even excluding the cost of liquefaction, the cost of supplies from the United States will be 36% higher, and with a full cost cycle the difference will reach 89% (see Figure 1).

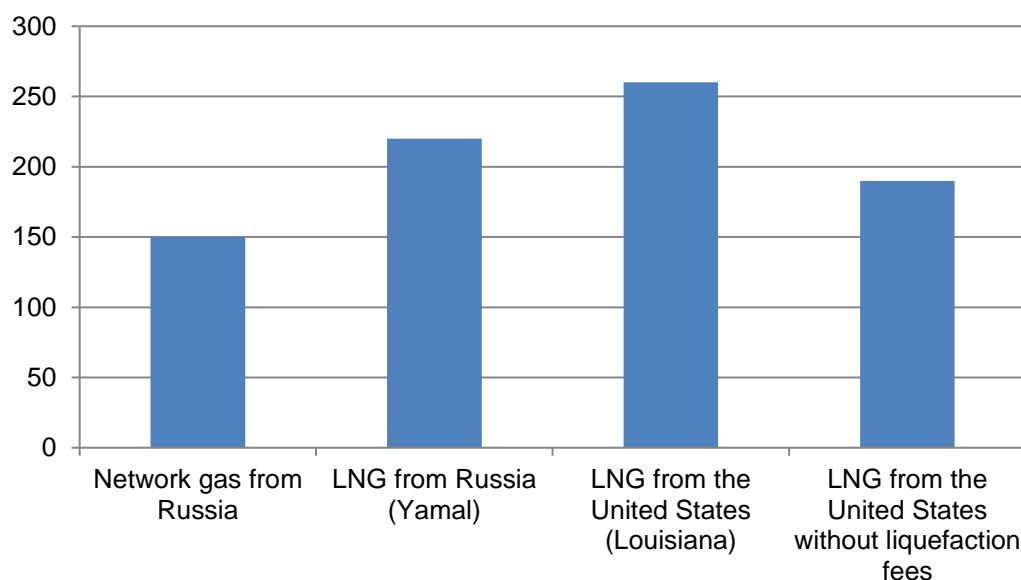


Figure 1. Cost of gas supply to Europe, \$/thousand cube. M (data for 2020)

Source: Kulagin (2019)

In many ways, the situation in gas trade in the world energy market will be determined by demand in Asia and Europe, as well as by the possibilities of domestic production in these regions.

Despite the high competitiveness of Russian gas on the European market, it will not be easy to increase sales volumes: many supplier countries will strive to win niches, including through price wars and sales cheaper than cost. Therefore, it is necessary to rationalize the medium-term prospects for the development of Russian gas sales, both in Europe and in other regions.

2. Theoretical framework

Russian pipeline gas exports declined since 2007-2014. One of the reasons was the reduction and then the complete cessation of supplies towards Ukraine. When Russia has put gas supplies to Ukraine in prepayment mode, this has led to their termination. Only gas destined for transit to Europe was transported through gas pipelines. Ukraine did not agree to this mechanism and insisted that payments be made on the fact of deliveries. At the same time, Ukraine increased reverse gas supplies from Europe through the gas transportation systems of Poland, Slovakia and Hungary.

In 2019, with the approaching expiration of contracts between "Gazprom" and "Naftogaz", the issue of maintaining transit through Ukraine began to be discussed at tripartite consultations. At the same time, Russia is ready to conclude a new transit agreement according to European rules, which provide for flexible reservation of transit capacities and a tariff on the basis of the "entry-exit" principle. Thus, Russia will receive the Ukrainian transit corridor, which acts as a balancing direction for gas supplies to Europe; Ukraine, in turn, after full loading of alternative routes, will be able to receive up to 40-60 billion cubic meters, in 2020 and by 5-10 billion cubic meters more with the start of the "Nord Stream - 2" project (Aune *et al.* 2017).

At the end of 2019, representatives of Russia and Ukraine signed a package agreement, according to which the contract for gas transit will be extended for five years. The total volume of gas supplies for this period should amount to 225 billion cubic meters. This decision benefits both sides: according to Ukrainian experts, future revenues of Kiev from the transit of Russian gas can amount to up to 2 billion dollars per year, the Russian side will be able to guarantee the continuity of the supply of blue fuel to European buyers thanks to the preservation of Ukrainian transit (Neftegaz.ru, 2018).

Russia is the main exporter of natural gas to Bulgaria. Gas supplies to the country have been carried out since 1974. In 2018, natural gas consumption in Bulgaria amounted to about 3.47 billion cubic meters, including imports - 3.17 billion cubic meters.

Bulgaria, having closed the South Stream main gas pipeline project in 2014 under pressure from the West, a project that would bring significant economic benefits to Bulgaria, began to consider possibilities of cooperation with Russia on the "Turk Stream" project. From January 2020, Bulgaria began to receive Russian gas from the "Turk Stream", not through Romania.

Deliveries through "Turk Stream", according to Bulgarian gas company Bulgarian, will save the country about 41 million Euro. Also, the company said that at the end of 2019 an additional agreement was signed with the Russian company "Gazprom Export", which from 2020 changes the point of delivery of Russian natural gas to the territory of Bulgaria - instead of Negru-Vode (Romania) it will be Stranja (Turkey). This is also beneficial due to lower tariffs announced by the operator "Bulgarian" at the entrance of "Stranja" (Savosin, 2020). In addition, the Bulgarian company requested to increase the capacity of future infrastructure due to the planned volumes of deliveries on the "Turk Stream". This became a pressing issue, after the project attracted growing interest from gas traders.

Another partner country of Russia in the gas market was Turkey. Vigorous actions to promote joint project with Turkey - alternative to "South Stream" brought benefits to both countries. Thanks to energy cooperation between Russia and Turkey, natural gas imports reached a record 53.5 billion cubic meters in 2017. Thus, Russia has become the most important supplier of gas to the Turkish market. Turkey, for its part, is the second largest export gas market for "Gazprom" (after Germany) and is one of Russia's top ten trading partners.

The "Turk Stream" project involves transportation of up to 31.5 billion cubic meters, M of gas per year through the construction of two lines of gas pipeline with a capacity of 15.75 billion cubic meters. The first thread is intended for supply of Russian gas to Turkish consumers, the second - for supply of countries of South and South-Eastern Europe. The offshore part is 930 km of pipeline with total length of 1300 km (GIS, 2018).

The project considered two options for supplying gas along the second branch. The first is via Greece to Italy, by resuming construction of the "Interconnector" project (Turkey-Greece-Italy, or ITGI, also known as "Poseidon"). The second is via Bulgaria to Austria, Hungary and Serbia, by resuming the connecting pipeline from Turkey to Baumgarten, Austria, as planned in the route of the unrealized South Stream pipeline.

The project is expected to be competitive because investment costs are not as high. Thus, Turkey has strengthened its position in the provision of natural gas to its European neighbors and has thus become a gas hub for these countries. Typically, energy projects lead to strategic partnerships and guide foreign policy. That is an example of the "Nord Stream - 2" pipeline, which strengthened cooperation between Germany and Russia.

So far, it has been Germany that has made some efforts to ensure that the construction of "Nord Stream - 2" is not blocked or subject to the restrictions of the updated EU gas directive.

Since "Gazprom" faced legal difficulties in addition to sanctions and related consequences. The gas directive is one of the documents of the Third Energy Package, the fundamental regulator of European energy. The package limits the rights of gas and electricity suppliers if they also own means of delivery (Tichy, 2018).

"Nord Stream - 2" - is a project of a 2-line gas pipeline with a capacity of 55 billion cubic meters/year of gas connecting Russia and Germany on the bottom of the Baltic Sea. The length of "Nord Stream - 2" will be 2,460 km (on both lines). In addition to "Gazprom", 5 European companies (Engie, OMV, Shell, Uniper and Wintershall Dea) participate in the project. According to the project financing agreement, Gazprom will provide 50% of the project financing (4.75 billion Euros out of 9.5 billion Euros of total value), and the remaining amount is jointly financed by partners (Shakhovskaya and Timonina, 2018).

The interest in the "Nord Stream - 2" project is that Germany is the largest exporter of natural gas in the European Union, despite not producing significant amounts of hydrocarbons itself. It is Germany that has benefited most from the re-export of Russian gas, because pipelines from Russia are drawn both to the existing hub in Austrian Baumgarten in the south, to France and to the Benelux countries.

The Danish Energy Agency (DEA), after a long review in 2019, finally approved the application for the construction of "Nord Stream - 2". Norway also supports the construction of a gas pipeline: 30% of the shares of Kvaerner, a construction contractor, belong to the state. (Neftegaz, 2020). The United States, Ukraine, Poland, Czech Republic, Estonia, Hungary, Latvia, Slovakia, Romania, Lithuania and Croatia opposed. The countries of Central and Eastern Europe see "North Stream-2" as risks to their own energy and even national security: Europe will allegedly become dependent on Russia, not taking into account the fact that Nord Stream 2 is pursuing only business goals, allowing European gas consumers to save about 8 billion Euro per year through cheaper energy resources (Shakhovskaya and Timonina, 2020).

At the same time, many countries are considering suspending cooperation with Russia. Thus, the Polish oil and gas company PGNiG in November 2019 officially notified Gazprom of its intention to complete the contract for the supply of Russian gas. This is the so-called Yamal contract, which expires on 31 December 2022 (Neftegaz, 2019).

The management of the company believes that the termination of imports from Russia can be compensated by the supply of liquefied natural gas (LNG to Poland already comes from Qatar and the United States) and new fields in the North Sea. Thus, the Yamal contract, according to Polish experts, can be completed without compromising Poland's energy security. Under the terms of the contract PGNiG the Polish company will not buy at Venture Global-owned LNG (USA) plants Calcasieu Pass and Plaquemines at a million tons of LNG per year, followed by resale in other plants. However, it is worth taking into account the fact that importing countries prefer to deal with direct suppliers rather than buyers. Poland, with its focus on the construction of terminals for the reception of American LNG and the construction of plants for its thinning, will create additional jobs in Poland, which compensates for the cost of American LNG, but in the long term can lead to losses.

3. Conclusion

In the modern world economy, at the stage of its globalization at the end of the first quarter of XXI, when competition is replaced by sanctions policies, it is the minimization of ever-increasing transaction costs that forces countries to change their cooperation in this form in such circumstances, not just to minimize these costs, but to do so by generating additional benefits in the form of creating new jobs and reducing unemployment (Shakhovskaya *et al.* 2018).

Thus, the Russian oil and gas industry is currently characterized by successes in the eastern export direction and a new turn of tension in the western direction. But despite this, there are good opportunities for Russia to increase exports in the Asian direction as part of the expansion of LNG production in Sakhalin. In addition, Russia's economic cooperation with Africa has been developing quite dynamically in recent years, and the potential of trade and economic ties and investment projects is very high (Shakhovskaya and Timonina, 2019).

It can be said that in the world energy market, there is not just a change of ages, but a change of priorities, goals and strategy due to the change in the structure of reserves, connected with the gradual depletion of the resource base, with the change of geopolitical factors and the restructuring of the fuel and energy complex.

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