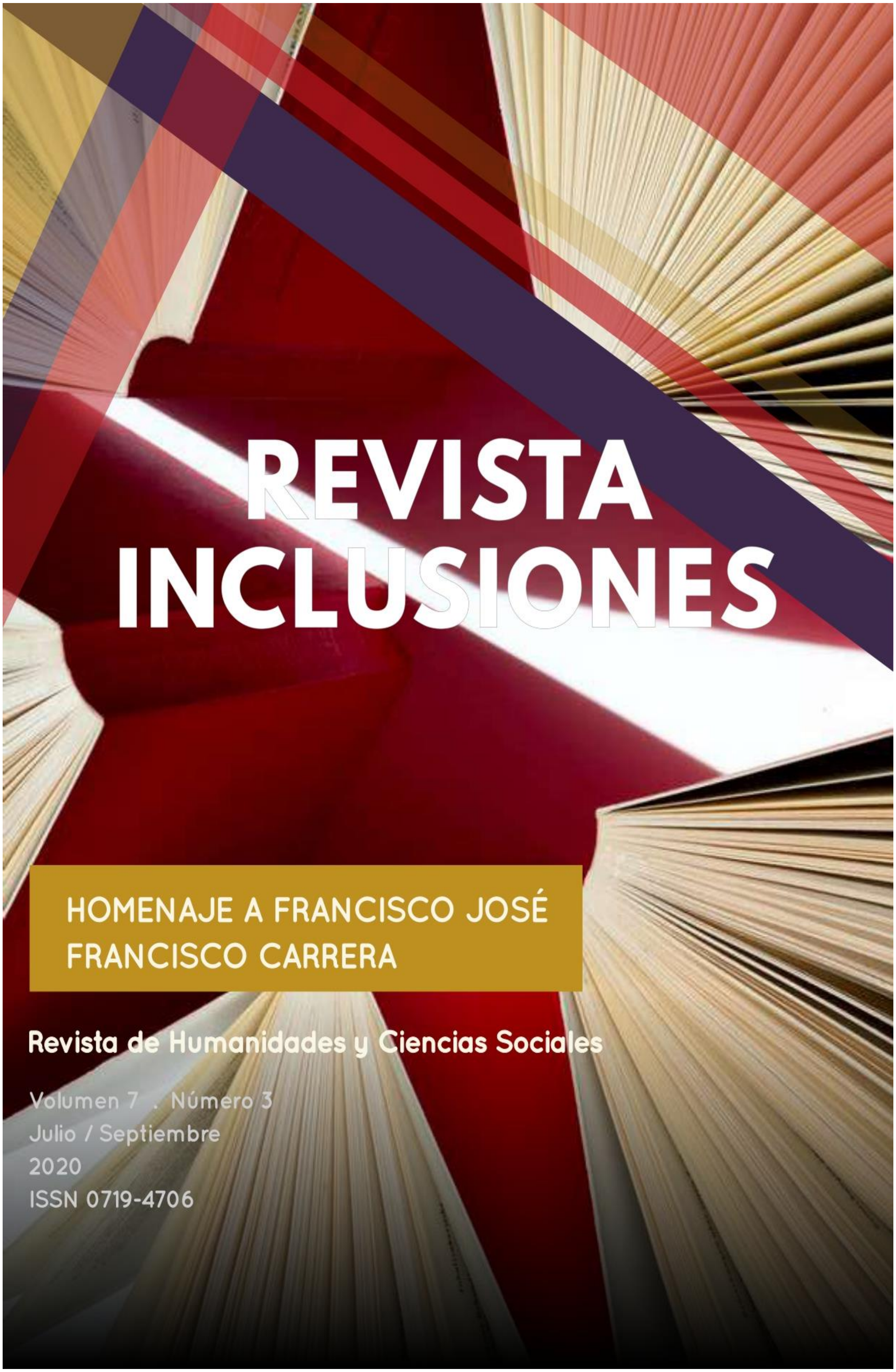
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ENERGY EXPANSION OF GAZPROM AND ITS REFLECTION IN RUSSIA'S EXTERNAL POLICY

Dr. (C) M. V. Afonin
Russian State Social University, Russia
ORCID ID: 0000-0002-6291-3732
AfoninMV@rgsu.net
Ph. D. A. L. Krivova
Russian State Social University, Russia
ORCID ID: 0000-0002-4095-4656
KrivovaAL@rgsu.net
Dr. M. Yu. Martynova
Russian State Social University, Russia
ORCID ID: 0000-0002-7784-8240
martynovamiu@rgsu.net
Dr. (C) P. Ya. Meshkov
Russian State Social University, Russia
ORCID ID: 0000-0002-1201-1087
meshkovpia@rgsu.net
Dr. (C) G. Yu. Nikiporets-Takigawa
Russian State Social University, Russia
University of Cambridge, UK
ORCID ID: 0000-0002-5611-8396
NikiporetsGIu@rgsu.net

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Abstract

In this article, the authors analyze in detail the current state, tendencies, and development prospects of the gas market and international natural gas trade and characterize Russia's place in this market. The bigger role of gas in the global market allows Russia to solidify its positions and contributes to deepening economic cooperation between the Russian Federation and the EU provided that energy policy is well-thought-out and there is a prompt reaction to changing market conditions. As regards interaction among Asia Pacific Region countries, Russia must break onto new markets and master the latest technologies.

Keywords

Gas market – Expansion – International trade – Natural gas

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Introduction

Europe has steadily consumed Russian gas for more than 40 years already, but in the past few years, Russia's image of a reliable supplier has deteriorated[1]. Key gas buyers are Germany, Turkey, Italy, Belgium, and France. The EU accounts for around 65% of Russia's gas exports; Russia commands 44% of total gas imports to EU member states[2]. Notably, some East European countries (which joined the EU in 2004 and 2007) are 100% dependent on Russian gas[3].

Russia is interested in deepening cooperation with European countries to increase the attractiveness of Russian gas and expand access to end consumers. The EU is a traditional market for Russian energy sales and a key exporter of advanced equipment for the energy industry. Moreover, the EU holds sufficient resources to finance programs designed to develop and upgrade Russia's energy sector[4].

Maintaining leadership positions, ensuring reliable gas supplies, and increasing the efficiency of sales operations are key objectives faced by Russia in the European market.

In cooperation with the EU, the Russian Federation considers solely long-term contracts (for up to 25 years) based on inter-governmental agreements.

However, even such fruitful cooperation is complicated by several problems, disagreements, and controversies:

- Russia and the Gazprom PJSC lost the image of a reliable supplier;
- geopolitical disagreements;
- European countries perceive the energy policy implemented by Russia and Gazprom negatively;
- disagreements related to long-term natural gas purchase agreements;
- the EU's energy policy related to the diversification of suppliers.

Even though Gazprom is regarded in Russia as a symbol of the successful and strong country, other countries treat the gas giant only as a company that does its utmost to dominate energy markets in the absence of any clear-cut line of interrelation with Russian political institutions. Greater skepticism is caused by the fact that Russia and Gazprom operate as a single organism compared to other companies representing the gas industry in the international energy market.

[1] A. A. Shkuta, The European vector of Russia's gas strategy (Moscow: ECOM Publisher, 2008), 192.
[2] Ofitsialnyi sait Postoyannogo predstavitelstva Rossiyskoi Federatsii pri Evropeiskom Soyuze. Available at: http://www.russianmission.eu/ru
[3] European Energy Security. Conscious uncoupling. The Economist, April 5, 2014. Available at: http://www.economist.com/news/briefing/21600111-reducing-europes-dependence-russian-gaspossiblebut-it-will-take-time-money-and-sustained
[4] A. Dmitriyevsky y A. Sumin, Prospects of Russia – EU Energy Cooperation. Energy Dialog num 1 (2011): 2-3.

Methods

When developing the methodology we used approved methods, concepts, and approaches applicable in the following disciplines: international economic relations, world economy, and international business. When resolving specific problems we applied the method of expert estimates, as well as methods of content and event analysis, interactive modeling, etc.

Results

Given the aforementioned factors complicating cooperation between Russia and the EU in the gas sector at the moment and the gas market's development trends, we can draw some conclusions about the prospects of this cooperation.

Reviewing the long-term prospects of cooperation between Russia and EU member states, we would like to note that the odds of Russia holding the position of a key energy exporter are slim because the EU is currently busy implementing a serious policy aimed to develop the energy sector as part of national energy development programs of its member states (to increase a share of renewable energy, reduce GDP energy intensity, and develop the shale gas industry). As part of this program, Germany plans to cut natural gas imports by 60% by 2050. However, the program sparked a wave of public discontent as these measures will push up electricity prices. Electricity output costs at gas-fired power plants tend to rise year after year while investment in the gas industry is in decline[5]. Germany will most likely cut natural gas imports by reducing its dependence on gas supplies from Russia.

As regards liquified natural gas (LNG) supplies from the United States, some foreign scholars think that LNG shipments do not pose any serious threat to Russian gas pipeline supplies because shale gas output and transportation do not pay off. Even if shale gas output booms, this will not mean high profit for gas producers. Moreover, environmental risks associated with shale gas production substantially slow down the development of this industry.

At the same time, Russia should be borne in mind. The International Energy Agency forecasts Russia to retain the role of a key natural gas supplier of EU member states given its geographical proximity[6]. A key reason is also the fact that Russia and Gazprom hold reserves for decades ahead, while other concerns have to look for new reserves across the world to substitute oil and gas produced every year. Furthermore, Gazprom holds a huge portfolio of new major projects designed to bring gas to the markets. The gas giant sees a threat in global changes in the energy market following an increase in shale gas output and, consequently, a decline in gas prices. Shale gas output gradually substitutes LNG imports, resolutely pushing the US to the top of gas producers[7].

[5] B. E. Zaritskiy, "Energy dilemmas of the Federative Republic of Germany", International life num 5 (2013): 101-114

[6] Medium – Term Gas Market Report 2014. Executive Summary. International Energy Agency. (Paris: International Energy Agency, 2014), 9.

[7] Gazprom needs shale gas. Vedomosti, October 6, 2010. Available at: http://www.vedomosti.ru/newspaper/article/247081/doshlo_do_gazproma

Speaking about mid-term development prospects of the Russian gas industry, we would like to highlight the vector eastward. The Asian energy market is forecast to develop faster than the European market. Energy demand, natural gas demand in particular, will be growing at a higher pace in the region. Although over the past few years Russia has boosted gas supplies to Asia, it still lags behind its rivals.

Results

Experts highlight several reasons explaining investor interest in the company:

1. Stable financial results (the richest transnational corporation in the world; the ratio between current assets and current liabilities is high);

2. Extensive experience in conglomerate mergers (it owns oil producers, financial and IT firms. This makes it less vulnerable to cyclical fluctuations and less dependent on gas prices and the supply/demand ratio);

3. Long-term operating program (substantial financial resources and connections with Russian authorities).

Summing up the analysis of the Russia – EU cooperation in the gas sector, we would like to point out that the countries are interdependent. What makes Russia dependent is the fact that Europe accounts for more than half of Russian gas exports and, consequently, supplies directly rely on demand and the energy policies pursued by European countries. In the short term, this state of affairs poses a threat to the country's economic security[8].

An important item of Russian budget revenues is export duties from gas sold in Europe. Consequently, a decrease in European energy imports is dangerous not only for Gazprom but for the whole country. Despite business diversification efforts taken by the gas giant, income generated from gas exports to European countries is still the highest[9].

Another threat to Russia's energy security is tougher competition in the near future and the Russian energy market's lagging in technological development following fast gas production growth in the US. It is also necessary to mention the consequences of the sanctions imposed against Russia that affect gas equipment exports to Russia, thereby aggravating the country's unstable position in the global energy market.

Even though pipeline gas shipments will remain the main source for the EU for a long time, right now Gazprom must take measures to ensure its long-term economic and energy security. The gas giant has recently launched several projects aimed to diversify trade routes for Russian gas and to develop LNG technologies. In the long term, they will be executed notwithstanding the current political conditions.

Concerning the vector eastward, of importance is a 30-year contract signed in May 2014 with the China National Petroleum Corporation to deliver Russian gas from East

[8] V. I. Avilov y S. D. Avilova, "Energobezopasnost – prioritetnaya zadacha Rossii", Century of Globalization Vol: 2 num 12 (2013): 167-179.
[9] Reducing European Dependence on Russian Gas: Distinguishing Natural Gas Security from Geopolitics (Oxford: Oxford Institute for Energy Studies, 2014), 57.

Siberian fields, which provides for gas exports for a total of USD 400 billion[10]. On December 2, 2019, Gazprom launched a new gas pipeline (the Power of Siberia), through which it will deliver 38 billion m^3 of gas per year from gas fields operated in the Irkutsk region and the Republic of Yakutia to China[11].

Conclusions

Anti-Russian sanctions prompted the countries to cooperate. Experts think that cooperation with Russia is an excellent chance for China to reduce its dependence on Persian Gulf gas deliveries[12]. This step for Russia mainly aims to solidify its energy security by diversifying gas buyers. The gas giant's Asian strategy will in no way impact the cooperation between the Russian Federation and EU member states because gas pipelines running westward and eastward do not have shared exit points. In theory, this will allow the gas giant to alternate gas deliveries westward and eastward depending on prices offered in various markets. This would create a market-based diversification mechanism. While dealing with China, Russia should bear in mind tough competition that can arise on the part of Turkmenistan, Kazakhstan, and Uzbekistan. According to the latest data, Turkmenistan's gas exports will increase to 65 billion m^3 per year over the next few years[13]. However, in the course of gas transportation, Turkmenistan has faced several problems, the most serious of which is a big distance between gas fields and sales markets on the Chinese eastern coast. This pushes up costs and prices. It cannot be ruled out that Russia can encounter the same problem when implementing its Asian strategy. As for plans of Russia, Gazprom, and some other corporations (Novatek and Rosneft) to develop LNG projects, they are part of the long-term development strategy of the country's gas industry[14]. Even now Russia has been executing its energy strategy intensively, breaking onto new sales markets, on which gas demand is growing rapidly. The successful execution of this program will help the Russian Federation reduce its dependence on gas supplies to European markets and solidify its energy security, while the EU does not sustain any losses at all.

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