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FEARS THAT RUSSIA MIGHT LOSE EUROPEAN GAS MARKET UNGROUNDED

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There has been much talk recently of Russian gas giant Gazprom losing gas markets in Europe. It can happen due to two reasons.

The first is that the liquefied natural gas (LNG) market – more flexible and mobile compared to the traditional gas market – continues to develop.

The second is that Norway is expanding its footprint in the gas market. It launched a large gas field, Ormen Lange (see the table) and built the first in Europe LNG facility in the Snohvit field in autumn 2007.

Ormen Lange gas field profile

Discovered	1997
Put into operation	September 2007
Distance from the sea, km	120
The depth gas is at, km	0.8-1.2
Reserves: gas, billion cubic meters	400
condensate, million tons	29
Daily extraction:* gas, million cubic meters	70
condensate, thousand tons	50
Project operator	StatOilHydro
Stakeholders	ExxonMobil, Shell, DONG Energy, Petoro

Source: Shell
**) from 2010.*

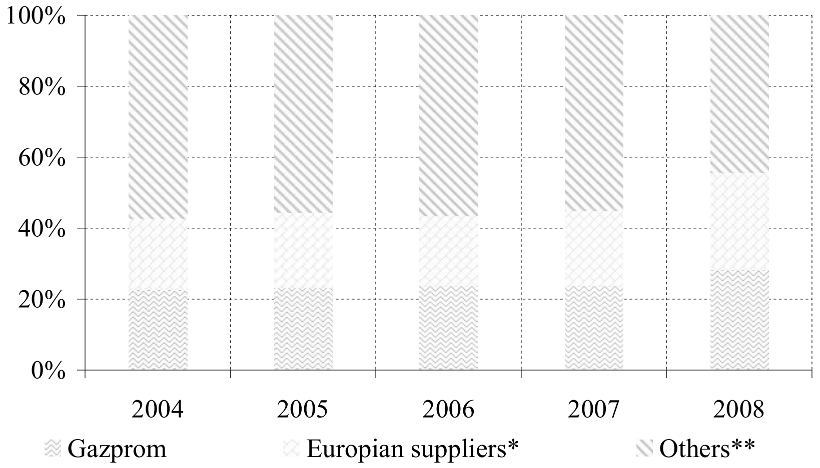
Although Europe continues to diversify its gas imports, fears that Russia's presence in the European gas market will be affected, are ungrounded.

The European Union, including Germany, the main consumer of Russian gas, has tended to purchase more gas from Norway in the past two years[1]. In 2009, gas imports to Europe fell 8.5% with Russia deliveries dropping 12%. At the same time, Europe's demand for natural gas fell only 7.5%. A severe decline in the European economy caused the demand for gas to decrease, and the approach to save funds made lower prices for European gas a solid advantage.

[1] In 2006, the share of Norwegian gas in E.ON Ruhrgas imports accounted for 27% while that of Russian gas – for 25%.

Gazprom has always sold gas at higher prices than European gas producers, which never affected the company's business. The shares of Gazprom and its main rivals in the European natural gas market prove this statement (see the figure).

Europe's largest gas suppliers



**) StatOilHydro and Gas Terra*
***) LNG suppliers, mainly Sonatrach*
Source: Gazprom

In 2008 Gazprom occupied more than 28% of the European market. Although its presence in Europe has weakened last year, the monopoly continues to hold one-fourth of the European gas market.

The beginning of 2010 showed that Norway's gas infrastructure failed at low temperatures – 15°C below zero. In future, European gas consumers are likely to hedge this kind of risks and promote closer cooperation with other gas suppliers, including Russia.

Development of EU's gas infrastructure prompted consumers to buy more European gas. Meanwhile, Russia has started a landmark gas pipeline project, Nord Stream. Consumers from Germany, Denmark, France and Great Britain have already signed contracts for the delivery of 21 billion cubic meters of gas, or 40% of the pipeline's 55 billion cubic meters capacity. When Nord Stream is launched, Gazprom's position will become stronger. Yet stronger will it become after the completion of South Stream running via Bulgaria, Serbia, Hungary and Austria.

Importantly, Gazprom holds the world's largest proven gas reserves. To secure reliable gas supplies, European consumers have been signing long-term contracts with Gazprom. Minimizing risks of market volatility, this scheme is likely to be used in future.

At the same time, to ensure its solid position, the gas giant should intensify LNG-infrastructure development in Russia. Flexible LNG market is becoming increasingly attractive and will cover a larger part of global and European gas needs.