



## The Russian Bear?

Posted by [Euan Mearns](#) on January 8, 2009 - 10:54am in [The Oil Drum: Europe](#)

Topic: [Supply/Production](#)

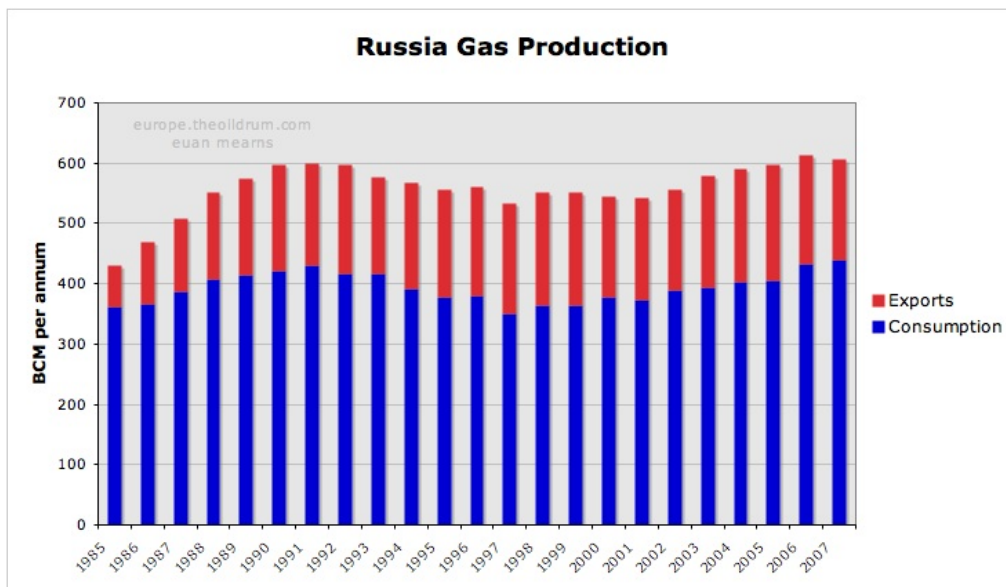
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LATEST [Russia will resume gas exports to Europe as soon as EU monitors arrive at gas compressor stations along the route, Prime Minister Vladimir Putin said.](#)

With news breaking that [Russia has just suspended all exports of gas](#) to and through Ukraine, what will the impact be on Europe and why has Russia chosen once again to take such drastic action?

Exports of gas from Russia fell 6% between 2006 and 2007 according to the [BP statistical review of world energy](#). Production fell from 612.1 to 607.4 billion cubic meters (bcm) per annum and domestic consumption rose from 432.1 to 438.8 bcm per annum leading to a fall in exported gas.

Is Russia withholding gas supplies leading to higher prices and manipulation of its market position? Or is the Russian gas supply system unable to meet demand?



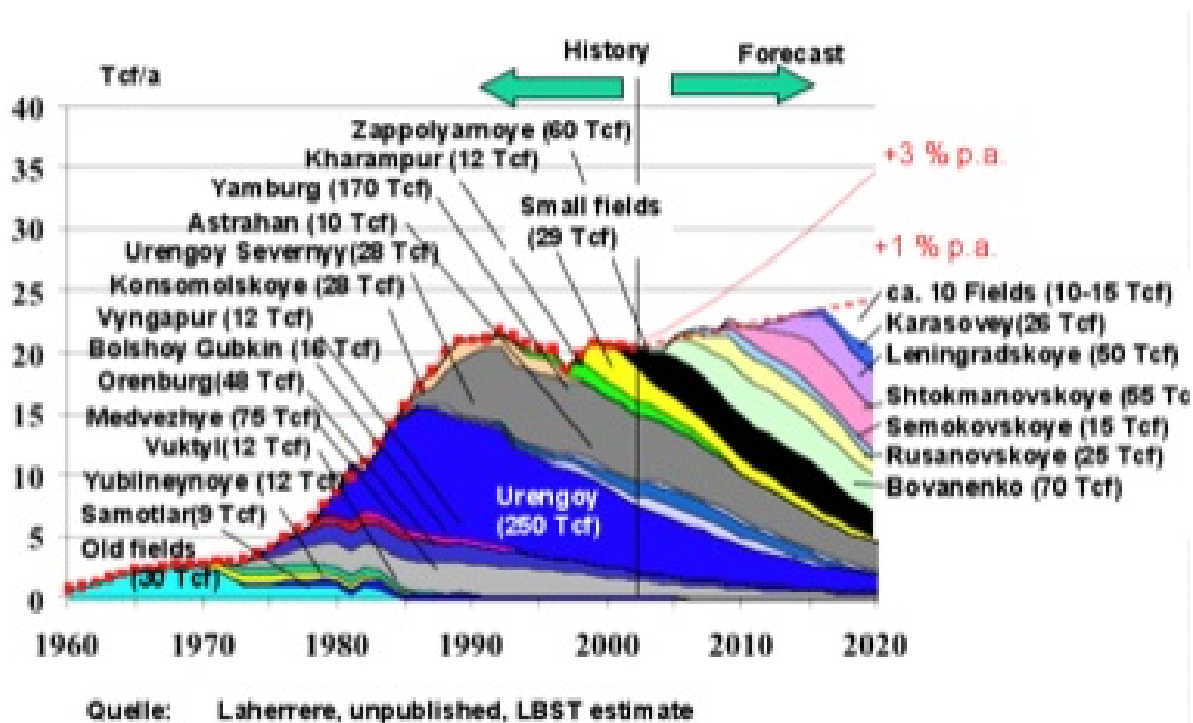
A couple of days ago I asked Jerome and Rune to write short posts on the unfolding Russian - Ukrainian gas crisis. Jerome's response was that this is not news - "it happens every year". But with Russian gas supplies now reported to be halted to and through Ukraine in the dead of winter the consequences for Europe are not good. Even if the dispute gets resolved within a few days.

The background to this long running dispute is complex, but put simply:

- The Russian gas supply and transit system is inherited from the Soviet era when Ukraine was an integral part of that system.
- Much of Russian gas exports to Europe must transit Ukraine, placing Ukraine in a position of power and influence well beyond the courtesy of allowing pipelines to transit its territory.
- **Ukraine is essentially bankrupt** and unable to pay full rates for Russian gas and is thus reported to help itself to some of the in-transit gas.
- Russia has hit economic hardship with the fall in oil prices and can likely ill-afford to subsidise gas supplies to Ukraine.
- Russia and Europe are mutually dependent upon each other in the energy market and both are dependent upon Ukraine for transit of much of Russian gas exports.

## Has Russian Gas Production Peaked?

This is impossible to answer. However, this chart from Jean Laherrere shows the three super giants - Yamburg, Urengoy and Medvezhye - in decline and that new projects will only compensate for decline going forward.



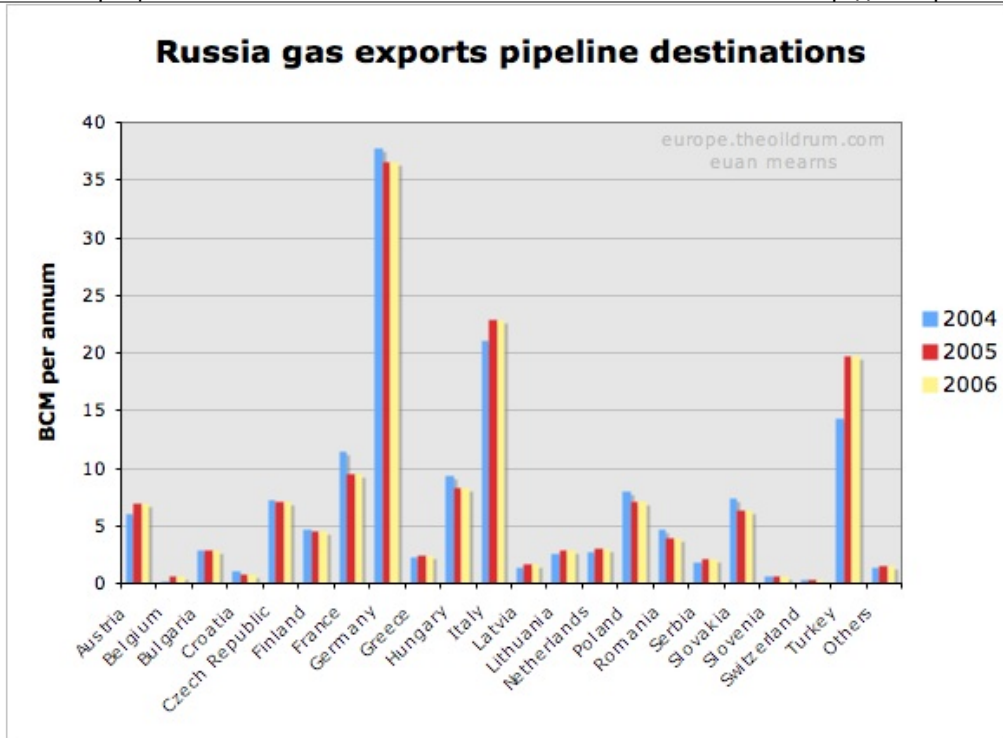
*Russian gas production forecast by Jean Laherrere showing how second tier fields may compensate for decline in the three giants - Yamburg, Urengoy and Medvezhye.*

Russia planning to develop the remote [Shtockman Field](#) in the Barents Sea tends to suggest that all is not well on the supply front.

## Falling Oil Production

Russian oil production has shown signs of falling. And this combined with recent moves to cut oil production in coordination with OPEC may lead to a fall in associated gas production. This could add further strain to gas supplies.

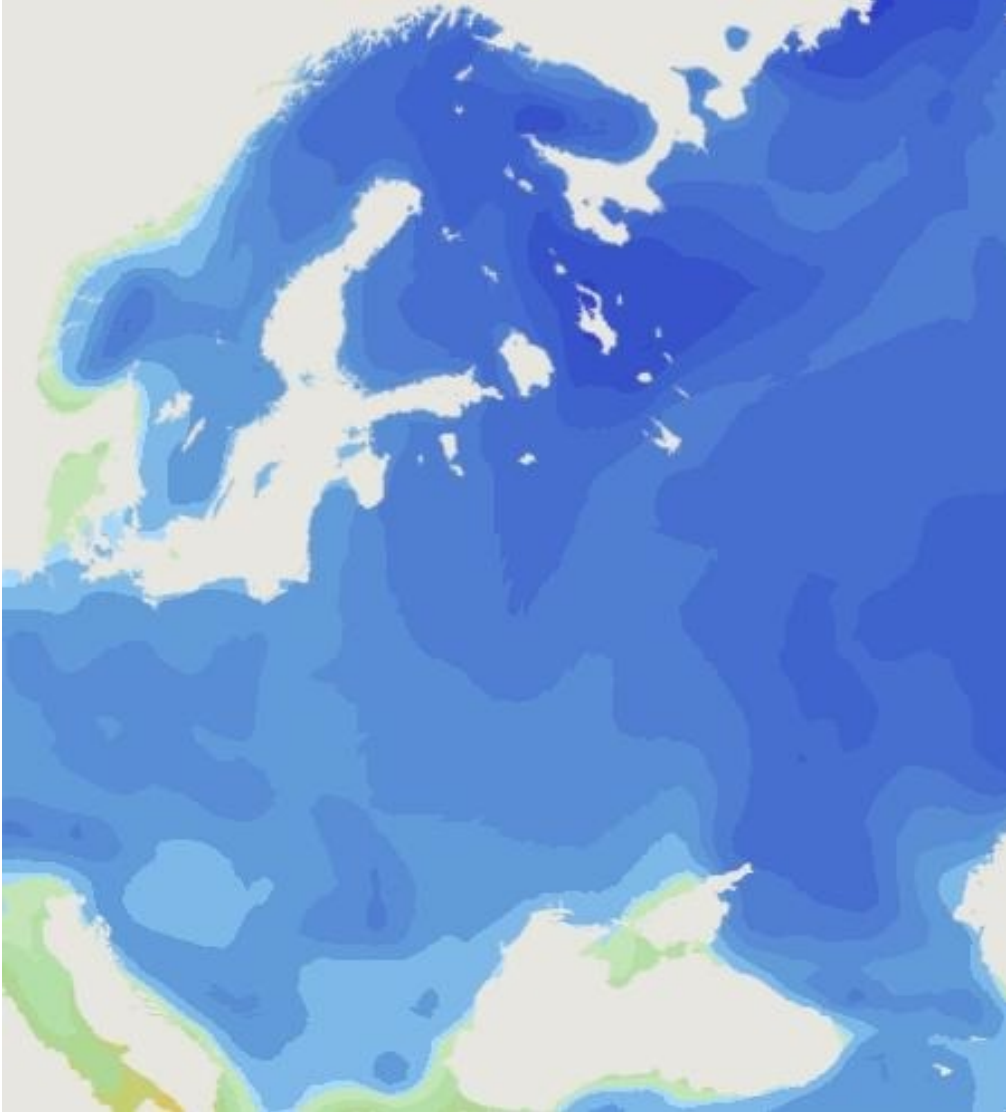
## Who imports Russian Gas?



The chart shows the destinations of Russian gas pipeline exports in 2006. And so these are the countries that may be affected by reduced gas supplies from Russia. The larger West European nations have diversified sources with Norway and Algeria being the principal alternatives. They also have large gas storage facilities that will keep the gas flowing for a while at least. Turkey receives gas via a separate pipeline and is thus unaffected directly by the Ukrainian dispute.

### Its Winter Time

Needless to say these disputes arise in winter when demand is high for heating - in Russia and Europe - and supplies are strained.



Russia and Europe are in the deep freeze, 7 January 2009. Source [BBC World weather](#) and UK MET office.

## Conclusion

Russia has been a reliable long term energy supplier to Europe and will likely continue to be so for the foreseeable future. At the same time, Russia has rights to maximise returns on its main asset which is energy.

When Russia and Ukraine go through their annual ritualistic gas spat, analysts should begin to question Russian ability to supply peak gas demand in the dead of a cold winter.

It seems that Russia is ultimately aiming to have the EU countries pay for the gas borrowed by Ukraine in leu of transit privileges. This will lead to Russia receiving full market value for gas exports and rising energy costs in Europe that will of course lower demand making it easier for Russia to meet its export obligations.

Some of Jerome's views are published [here](#) on European Tribune.



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