

Russia-Ukraine Crisis and Gas Security in Central Europe

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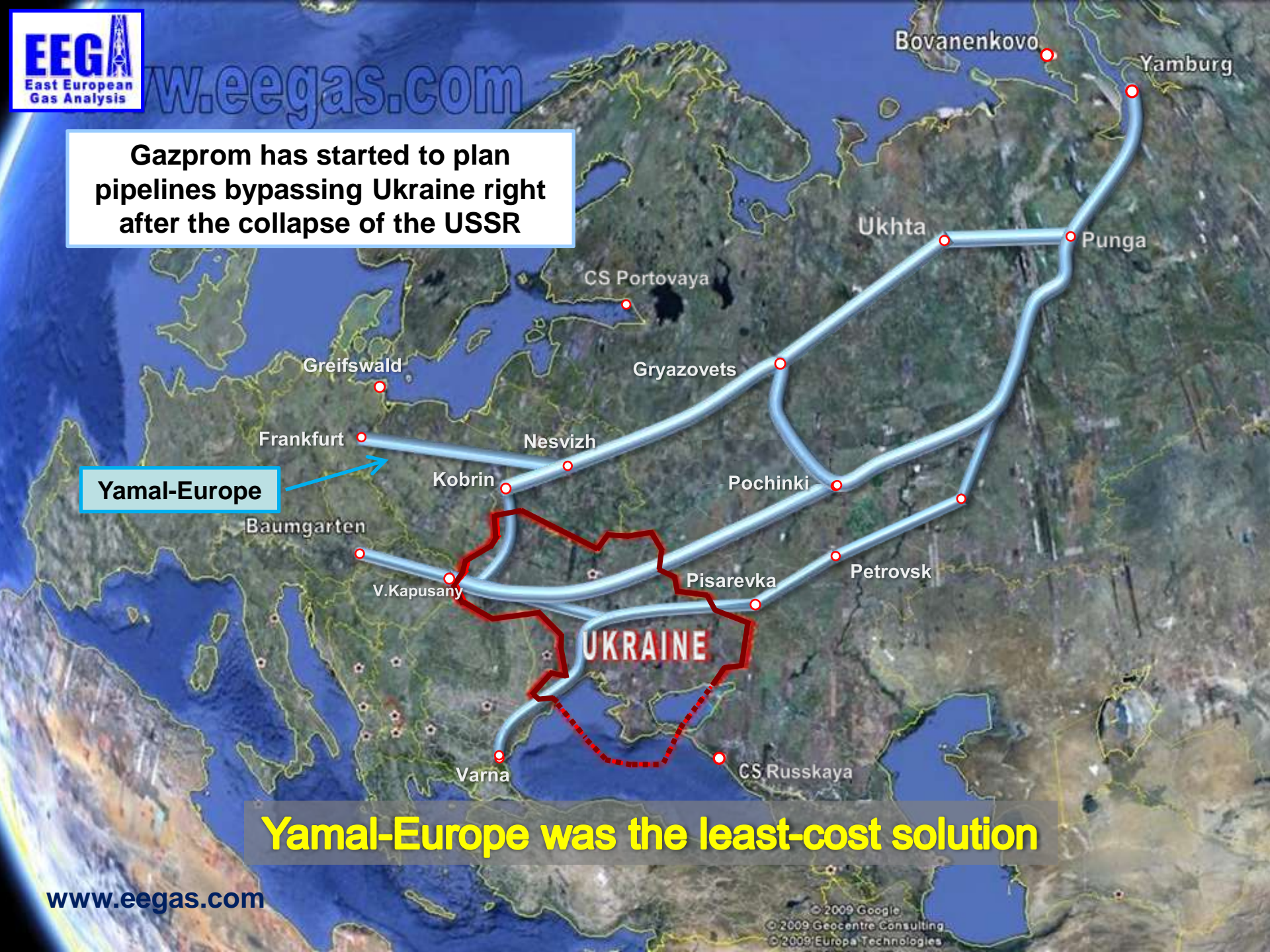
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Gazprom has started to plan pipelines bypassing Ukraine right after the collapse of the USSR

Yamal-Europe

Yamal-Europe was the least-cost solution



**Plan utilizing the existing pipelines
would cost about \$8 Bn now**

The plan was abandoned in 2002



The plan assumed construction of just 1000 km of new pipelines

**South Stream + Feeding Pipelines +
Financing ~ \$90 Bn (Putin's Plan)**

Old plan was \$82 Bn less expensive



It's business, not just politics

South Stream is not a project of Russia's national interest



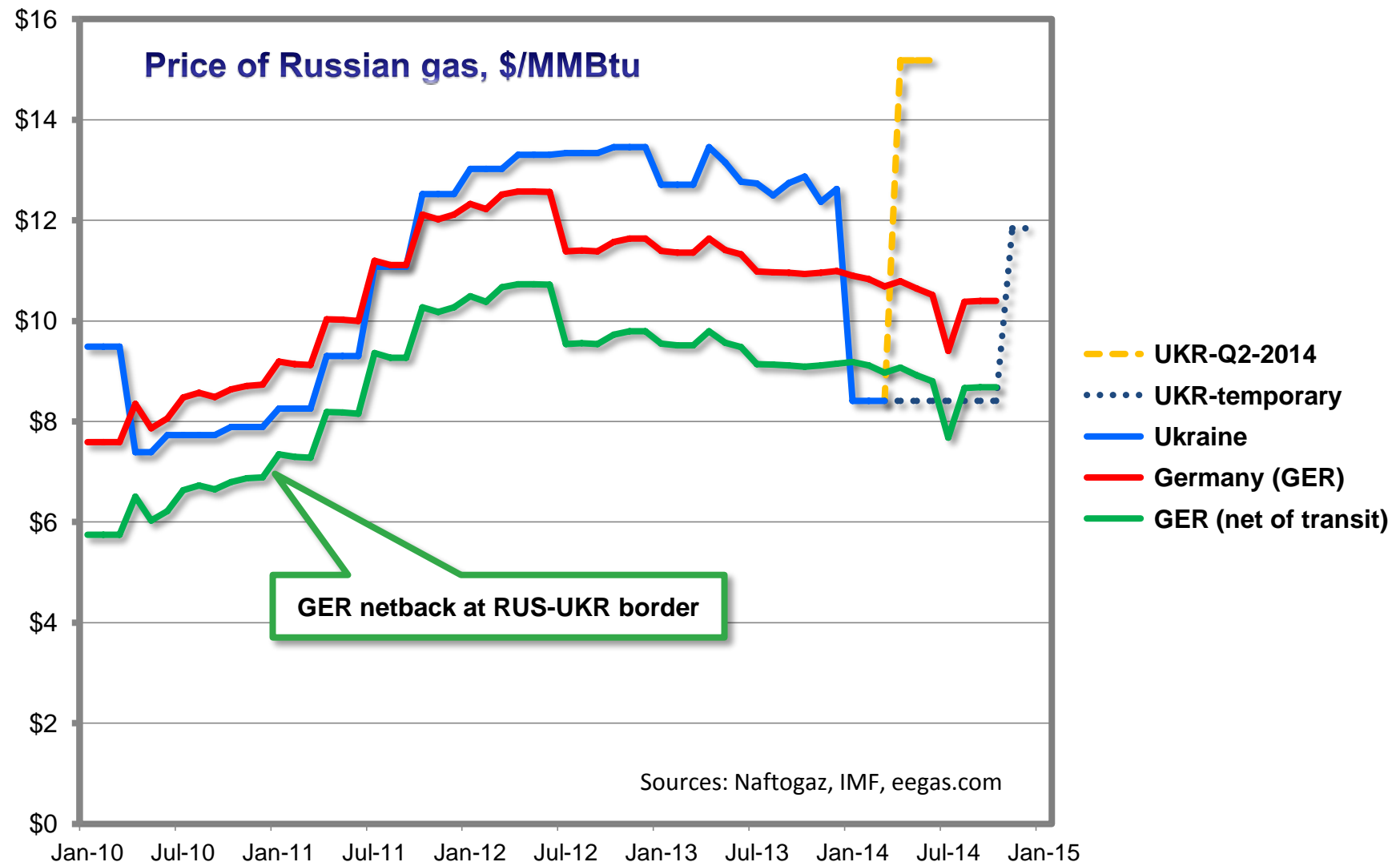
Messrs Putin and Miller



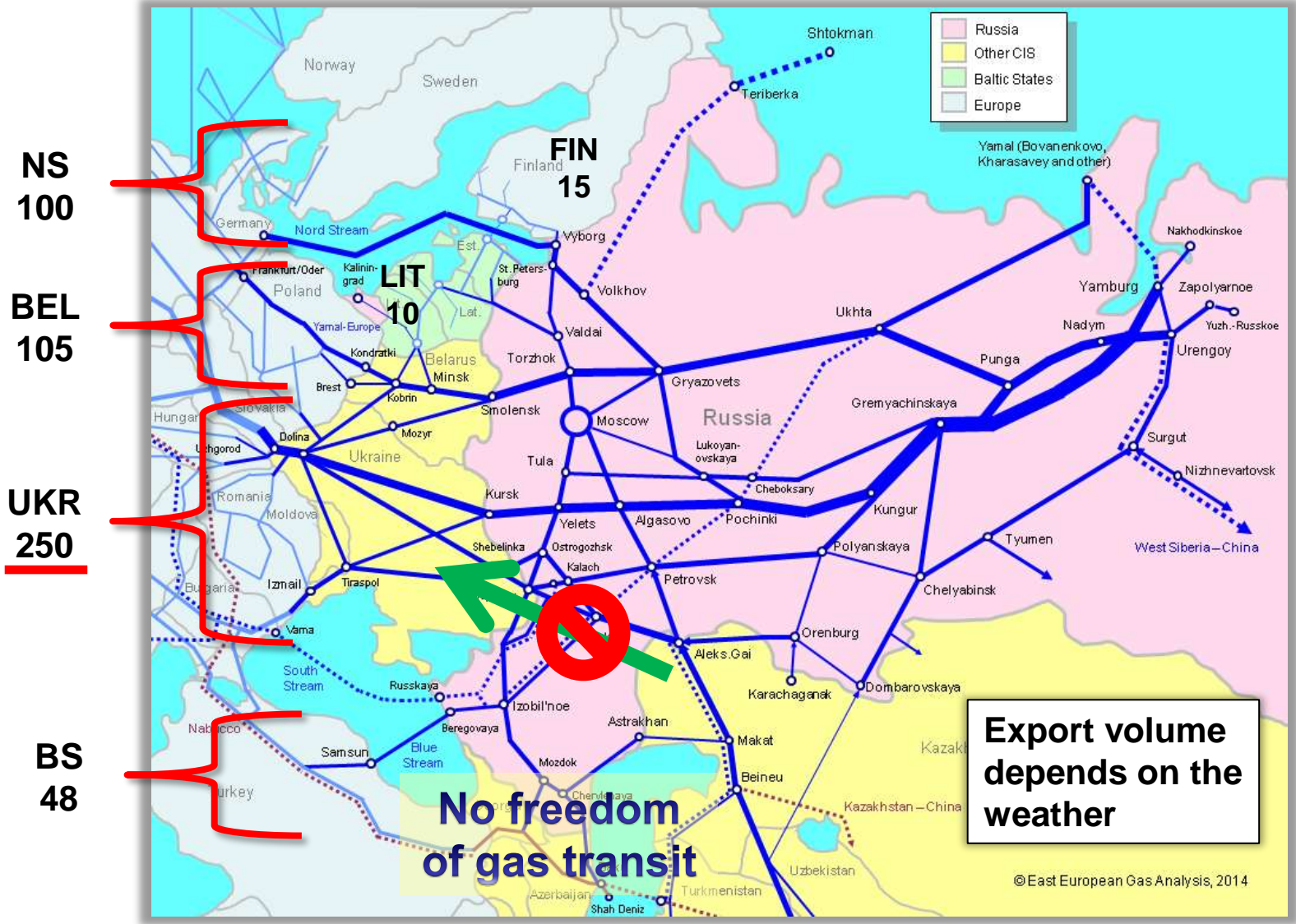
Messrs Miller and Rotenberg

- **Gazprom contractors are the only beneficiaries of the South Stream project in Russia**
 - Gazprom reports the cost of €7.4M/km of 1400mm pipeline in Southern Russia
 - The contractors happened to be good acquaintances and friends of President Putin
 - Apparently, the contractors have strong lobbying capacity
- **The \$90 Bn investment will reduce both tax collection of the state and profits of Gazprom**

President Putin Believes Gazprom Subsidizes Ukraine



Winter Exports to Europe + Turkey = 300-520 mmcmd



Conflicting Goals of President Putin



- **Putin wants to commission his pet project – the South Stream gas pipeline**
 - It looks like Russia is ready to accept the EU rules on the 3rd party access
 - South Stream to replace Nabucco for Azerbaijani gas?
- **Putin wants to show the importance of Russian gas for Europe**
 - It is getting colder in Europe
 - Here comes the tap
- **Gazprom needs cash from Europe to build the pipeline to China (by the same contractors)**
- **Putin wants to punish Ukraine for something he considers insulting**
 - Gazprom needs transit to Europe



2015 is likely to be another Year
of the Pipe in Central Europe

THANK YOU

