Gazprom’s response to U.S. LNG exports and the changing global market

Tatiana Mitrova
October 19, 2018
U.S. and Russia have long been the world largest natural gas producers, but they have not faced off in direct competition.

**US and Russian Gas Production**
1985–2017 (billion cubic meters)

**US and Russian Gas Exports**
1985–2017 (billion cubic meters)
The current impact of US LNG on Russian gas exports

- Shtokman termination
- Contract revisions
- More flexible pricing
- Russia speeding up the pipeline projects
- Growing domestic pressure on Gazprom
- Russian LNG development
European gas market consists of two segments: LTCs and spot, Gazprom has secured strong portfolio of LTCs…

European gas balance

Sources: Nexant WGM 2017, IEA World Energy Balances 2017, IEA Natural Gas Information 2017

* Europe-41 without Turkey
... and is well placed to compete on spot with LNG

Long run marginal supply costs to Europe (Russian pipeline gas and US LNG)

- Mozambique LNG: 2.1, 4.7, 1.7
- US LNG: 3.5, 2.9, 0.7
- Algeria LNG: 3.4, 1.9, 0.4
- Russian pipeline gas: 1.0, 2.1, 2.1
- Qatar LNG: 1.2, 1.4, 1.5
- Nigeria LNG: 0.7, 1.7, 0.9

Short run marginal costs to Europe (Russian pipeline gas and US LNG)

- West Siberia-Europe: 1.5, 1.2, 3
- US LNG-Europe: 0.4, 0.53, 0.45
Even with the next generation gas fields Gazprom still has low upstream costs

Gazprom’s reported average cost of production

Source: Gazprom
Gazprom`s target – 33% of the European market

“Our strategic task is to keep a one-third share of European consumption and we will carry out the strategy in a peaceful way without a price war”.

Elena Burmistrova, Gazprom Export CEO
FLAME, May 2017
Global oil prices and Asian gas demand will define situation on the European gas market

**European scenario matrix**

<table>
<thead>
<tr>
<th></th>
<th>Low oil price</th>
<th>High oil price</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>High Asian demand</strong></td>
<td>Low LNG availability</td>
<td>Increasing competition for LNG with Asia/</td>
</tr>
<tr>
<td>(no LNG glut)</td>
<td>Low LNG availability</td>
<td>Further contract revisions by Gazprom</td>
</tr>
<tr>
<td></td>
<td>Gazprom expanding gas exports</td>
<td></td>
</tr>
<tr>
<td></td>
<td>NO CHANGE</td>
<td></td>
</tr>
<tr>
<td><strong>Weak Asian demand</strong></td>
<td>Increasing competition between pipeline gas and LNG</td>
<td>Tough competition between pipeline gas and LNG</td>
</tr>
<tr>
<td>(LNG glut)</td>
<td>Gazprom voluntarily decreasing contractual prices</td>
<td>PRICE WAR (voluntarily increasing supply in order to drop prices and crowd away competitors)</td>
</tr>
</tbody>
</table>
Gazprom’s strategy in Europe

• Gazprom`s position in Europe is well protected by the existing LTCs, which guarantee 2/3 of the current export volumes up to 2030

• Gazprom is not looking to take more European market share. It has learnt the lesson: the company will no longer fight for high gas prices (as in 2009-2012).

• Compared to most of its new competitors, Gazprom has lower cost gas. Nevertheless it would prefer to avoid price war with the US and Qatar LNG in order to maintain export revenues.

• Post 2020 Gazprom`s strategy could be theoretically challenged by the gas market liberalization and opening of the pipeline export for Rosneft and Novatek
Thank You