# **European Energy Forum dinner debate**

Nord Stream 2 or real diversification: Challenges of the Internal Gas Market

20 November 2018

**Piotr Woźniak** CEO, PGNiG S.A.



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#### PGNiG S.A.:

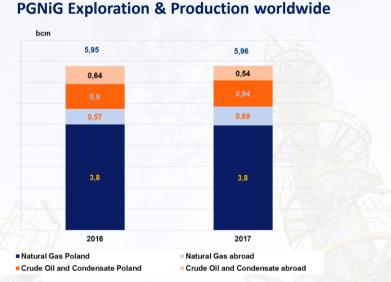
- Listed on Warsaw Stock Exchange since 2005.
- Market cap. 9,9 bln USD.
- Shareholders (December 31, 2017)



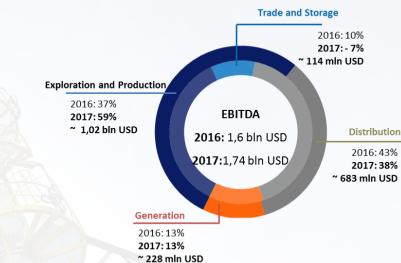
#### **PGNiG Capital Group**

- Poland's no. 1 integrated group in the oil and gas sector.
- 3rd biggest oil company in CEE.
- 8th biggest company in CEE.
- Over 25 000 employees in the whole group.
- Stable EBITDA level due to diversified revenues.

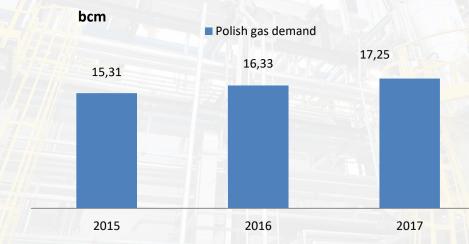
## **PGNiG** in figures



#### **PGNiG EBITDA structure**



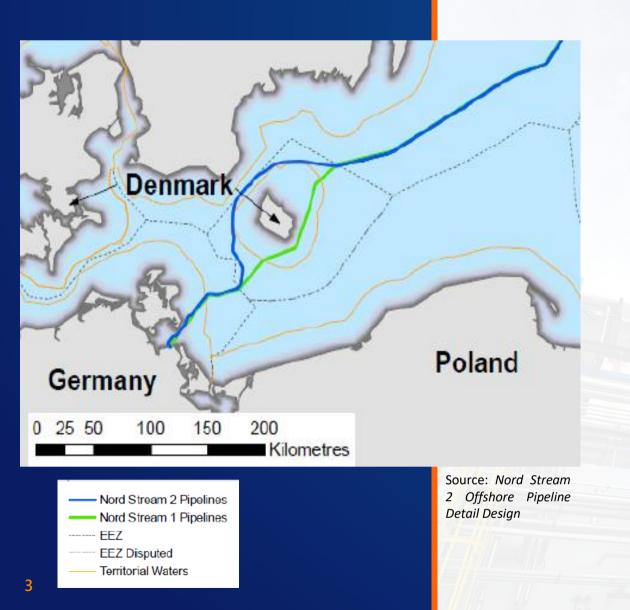
Polish gas demand



#### Source: based on Ministry of Energy data

## 🥑 PGNiG

## Nord Stream 2 – state of play



- Nord Stream 2 has obtained permits for construction of the German, Finnish, Swedish and Russian sections.
- Denmark and Germany are the only countries where NS2 crosses the territorial waters of an EU Member State.
- Denmark has not allowed yet for the construction of NS2.
- As Denmark is reluctant to give its consent for the construction, Gazprom proposed a new route through Danish Exclusive Economic Zone (North of Bornholm) without crossing the territorial waters of Denmark.
- Under provisions of the United Nations Convention on the Law of the Sea, Denmark cannot block the construction of NS2 in its Exclusive Economic Zone.

### ClientEarth takes legal action against construction of gas pipeline Nord Stream 2 in Finland

News / 14 May 201

ClientEarth has submitted a complaint to the Finnish administrative court in Vaasa to halt the construction of a 374 kilometre-long section of the Nord Stream 2 gas pipeline in the country.

Last month, the Southern Finland Regional State Administrative Agency approved a water permit needed for the construction of for the pipeline in the Finnish exclusive economic zone.

ClientEarth argues that the decision to grant the permit was groundless and that the impact of the project on the Baltic



международной Рамеарской конвенцией, снят плодородный слой почвы, по болоту проложена гать, ведется бурение скважним буровой установкой на базе автомобиля «КАМАЗ», государственный номерной знак B286AO98 (фотографии прилагаются).

#### NABU klagt gegen Bau von Nord Stream 2

Geplante Gaspipeline schädigt die Meeresumwelt der Ostsee



Millardon kusikmeter utgas solt die Pipelne die Steena zur 2n Jahr von Rissland nach eckleelburg Vorpommen milten durch die tiste urangsprüteren. Mit dem Bau wurde im Mai 18 begonnen. Von Ardang an bewettete der assenführung durch vier esensnatusch-Lutzgibeiet führt zu irreparablen häden der empfindlichen Meeresumwelt der tisee.

48 Vorlesen

Der Schweinswal würde durch den Bau von Nord Stream 2 estrem gestört und aus seinem Lebensrau vertrieben - Foto: NABU/Willi Rolfes

Planteststellungsbeschluss den Bau der Pipeline in den Külstengewässen genehmigte, prüfte der NABU mit Hilfe eigener Fachgutachten die Möglichkeiten der Verbandsklage. Am 2. März 2018 Gaspipeline am zuständigen befürchtet erhebliche Umweltauswirkungen in

#### ClientEarth moves to block construction of Nord Stream 2 pipeline in Sweden

News / 12 September 20

ClientEarth has filed a complaint to Sweden's Supreme Administrative Court to halt the construction of a 510 kilometrelong section of the Nord Stream 2 gas pipeline in Swedish waters.

The environmental lawyers argue that the construction documents are incomplete and inaccurate, as they fail to consider the impact the pipeline will have on marine wildlife in the Baltic Sea.

The construction of the highly contentious pipeline was approved by the Swedish Ministry of Enterprise and Innovation on 7 June 2018. Owned by Russian gas giant Gazprom, the pipeline will run through the Swedish exclusive economic zone – an area of coastal water to which Sweden has exclusive rights for fishing, drilling and other economic activities.

## Nord Stream 2 – state of play

- All **permitting decisions have been** challenged in the respective courts in Germany, Finland, Sweden and Russia, by:
  - GreenPeace in Russia,
  - ClientEarth in Finland and Sweden,
  - NABU in Germany.
- Despite these concerns, the construction of Nord Stream 2 has started.
- By the end of October 200 km of pipeline was laid down in Finnish and German waters.
- However, the leakage of mineral oil based greases near the Bay of Greifswald in the end of May 2018 proves that Nord Stream 2 is a threat not only to energy security but also to the environment.



Press Release

#### Nord Stream 2 Has Laid over 200 Kilometres of Pipeline

[Zug, Switzerland – 06-Nov-18] The Nord Stream 2 Project is progressing as planned. Over 200 kilometres of pipeline has been laid in the Baltic Sea to date. Some 20 vessels are operating simultaneously to ensure timely completion of the pipeline.

Pipelay barge Castoro Dieci has completed her scope in the Bay of Greifswald in Germany. Audacia continues pipelay in the German territorial waters, while Solitaire is laying pipe in the Finnish Exclusive Economic Zone. All works are being carried out according to the permits received.



## Nord Stream 1 impact on energy security

	Decrease	Duration	Route
January 2004	-100%	1 day	via Belarus
January 2006	-14%	4 days	via Ukraine
January 2009	-70%	20 days	via Ukraine
June 2010	-14%	1 day	via Belarus
September 2014 – March 2015	-20%	6 months	via Ukraine via Belarus
June 2016	-20%	1 day	via Ukraine
June 2017	-30%	2 days	via Belarus ONLY TO POLAND

#### Gazprom is hardly a reliable supplier

The supply crisis in 2009 hit a significant number of countries:

- Turkey,
- Greece,
- Austria,
- Macedonia, Czech Rep.,

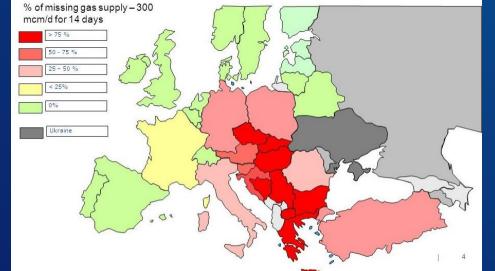
Slovakia,

Germany,

Poland.

- Bulgaria,
- Romania,
  - Hungary,
- Slovenia,
- Croatia,
- Bosnia & Herzegovina,
- )

European Commission



- Poland has suffered seven major shortages of gas supplies since 2004.
- Before NS1 was commissioned, Gazprom's main instrument of exerting pressure on countries from Central and Eastern Europe was to <u>temporarily</u> stop gas supplies by simple cut-offs.
- After the construction of NS1 Gazprom is able to <u>shift</u> supplies between different routes (Yamal, Brotherhood, NS1), instead of cutting the supplies off, in order to precisely target the country it wishes to exert pressure on.

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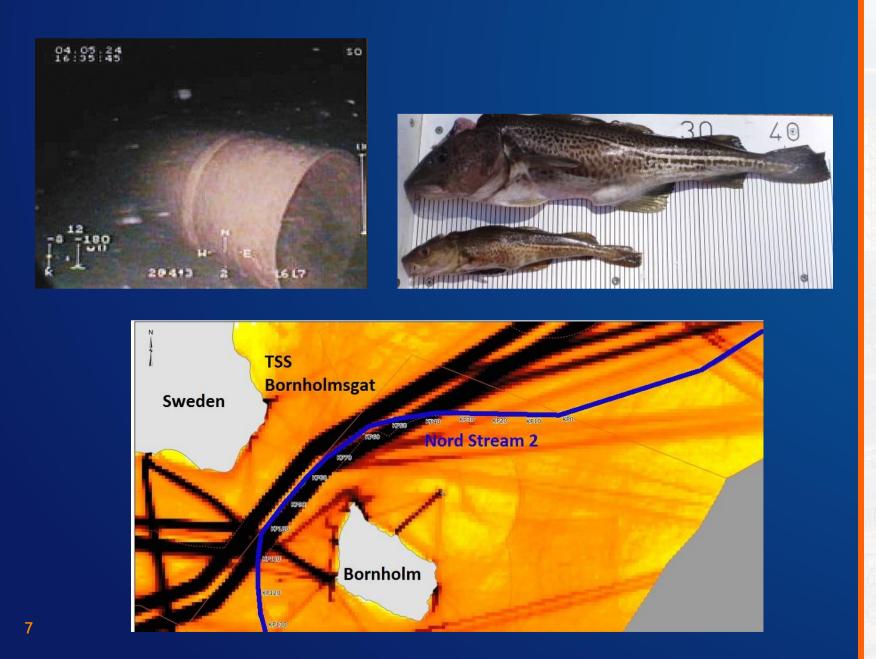
### Nord Stream 2 impact on energy security



- The construction of Nord Stream 2 was supposed to allow Gazprom to:
  - **<u>Permanently</u>** cut supplies to some countries, i.a. Ukraine and Belarus.
  - Freely shift supplies between different routes (Yamal, Brotherhood, NS1 and NS2) and thus partially stop supplies.
- However, as gas consumption in Europe increased in 2017 unexpectedly (2016: 464 bcm, 2017: to 491 bcm), the construction of NS2 is not enough to give Gazprom full flexibility in re-shaping the Central European gas market.
- This is why, Gazprom is finalising the construction of Turkish Stream 1 and Turkish Stream 2.
- These pipelines will allow to exert political pressure by Gazprom not only on the Central European but also on the Balkan countries.



### Nord Stream 2 impact on the environment



- Nord Stream 2 will create a number of risks for the environment in the Baltic Sea.
- <u>EU financed</u> studies CHEMSEA and DAIMON projects - clearly show that the pipelines will cross areas heavily contaminated with chemical and conventional munitions.
- A number of NGOs raised concerns on the mid- and long- term impact of NS1 and NS2 on fish population.
- If Nord Stream 2 is constructed north of Bornholm, it will create serious risks to marine traffic along so called BornholmsGat – major east – west waterway in the Baltic.



## How can Nord Stream 2 be stopped?

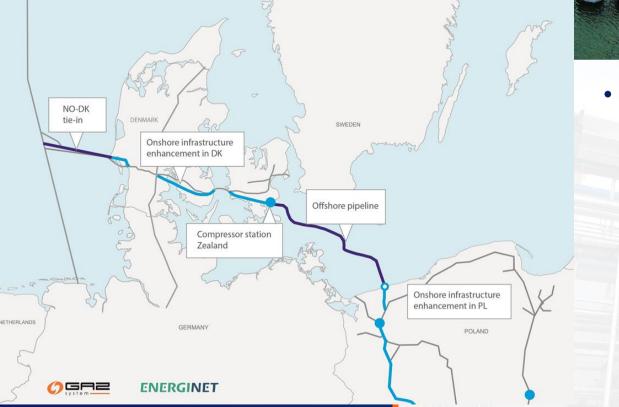
- Nord Stream 2 is described as "an economically viable project" only because EU energy law is not applied to it.
  - If the III energy package was fully imposed on NS2, the project would loose its bankability.
- Nord Stream 2 must meet all environmental standards of the EU.

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- The courts in Finland, Sweden and Germany will most probably make NS2 comply with these standards, as requested by respective NGOs.
- The energy security of Central Europe is endangered by NS2 because Gazprom's goals are political not economic. NS2 is an instrument of foreign policy of the Russian Federation.
  - The only country which can counterbalance the influence of the Russian Federation in Europe are the <u>United States</u>, as the EU proved to be incapable to react. This is why the <u>US sanctions should</u> <u>be imposed on NS2 without further delay.</u>







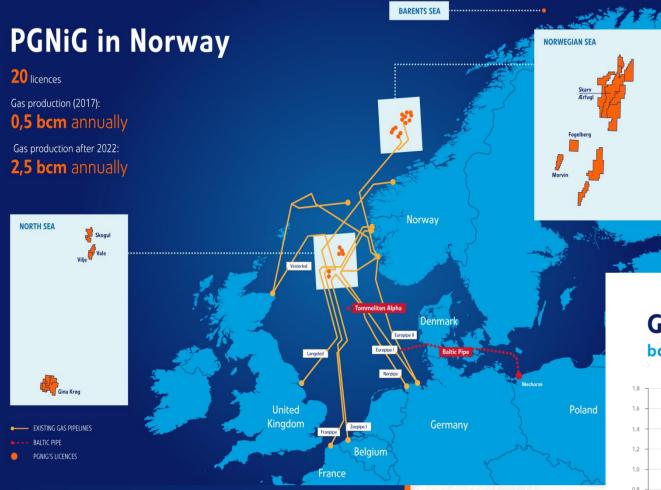
PGNiG cannot wait until law and enforcement measures are applied to NS2 by the European Union

 PGNiG's strategy for diversification is based on two priorities:

- Production and transportation of gas from Norway through Denmark to Poland.
- Diversified mix of LNG imports to Poland.

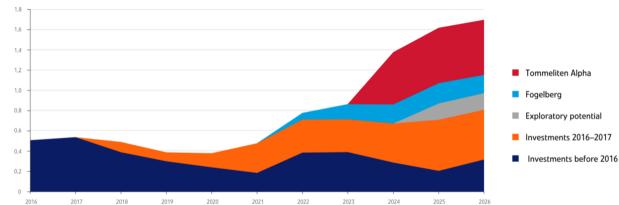


## **Baltic Pipe**

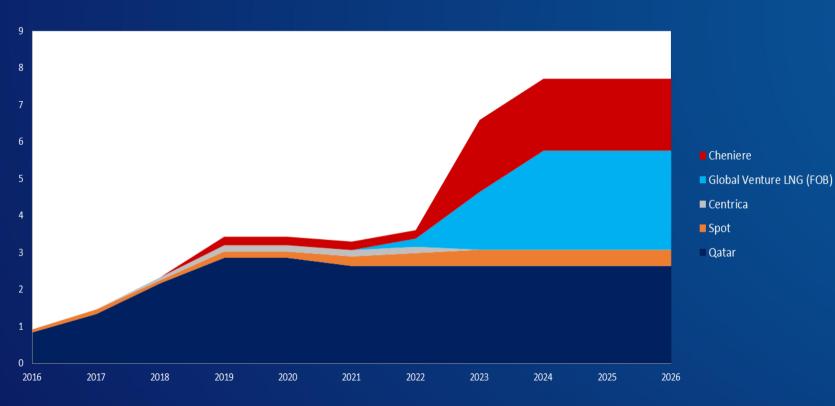


- A game changer in the region the largest pipeline project providing non – Russian gas to Central Europe:
  - Capacity: 10 bcm/y.
  - Deadline for construction:
    - Oct. 2022.
  - Final Investment Decision:
    - by the end of 2018.

# Gas production in Norway by PGNiG



#### LNG import



Gas from PGNiG's LNG contracts will be cheaper by 20-30% then gas bought by PGNiG from Gazprom.

By November 2018 **PGNiG brought to Poland** ca. 5 billion cubic meters

**38** Shipments delivered by Q-Flex type ships from Qatargas

5 Deliveres from other sources than long-term contracts

**September 2018:** LTC with Venture Global; for 2.6 bcm/y starting from 2022/23

November 2018: LTC with Cheniere is for:

- 0.7 bcm/y (2019 2022)
- 1.95 bcm/y (2023 2042)

39 bcm of gas in total.



### **Reactions of Russian media**

- Poland will be buying expensive American gas. It's an attempt to negotiate a rebate for gas from Gazprom. The price of American LNG depends on Henry Hub prices, so it is uncertain what the price will be in long term. The prise of US gas is 260-280 USD/1000 cubic meters. Gazprom supplies Poland with gas for 195 USD/1000 cubic meters. (Westi Finance)
- Poland combats gas dependency on Gazprom. The contract's price conditions are 20-30% better than those from Gazprom contract. (Vedomosti)
- **Poland definitely shifts to US LNG.** Experts are skeptical that LNG can be cheaper than pipeline transported gas. In 2018 the volumes of gas delivered from Russia to Poland increased by 10%. Vitaliy Molonov, Memeber of Duma's International Affairs Commission called switch to LNG as "slavery" and pointed to political pressure of USA. (gazeta.ru)
- "This is a ritual diversification because Poland does not intend to resign from Russian gas since every year it buys more of it" – said Igor Yushkov, an expert from the Financial University affiliated by the Russian Federation government. The new agreement is bargaining element of negotiations with Gazprom with which PGNiG has to renew a contract after 2022. Poland demonstrates its political loyalty towards the US. (Parlamentskaya Gazeta).

#### Трамп нажал на газ. Американский СПГ обойдется Польше слишком дорого

08:00 12.11.2018 (обновлено: 21:44 12.11.2018)

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#### Поставки газа в Польшу. Дешёвая дружба с США себе дороже

08.11 21:02

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Польская PGNiG подписала еще один контракт на поставку СПГ из США

Польская PGNiG обвинила «Газпром» в новых злоупотреблениях на европейском рынке



Thank you for your attention

# **Piotr Woźniak**

