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# The Future of Russian Gas

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## Overview

- The business context
- Development opportunities
- Implications

## Business Context

- Global market
- European market
- Domestic market

## Global Market

- Continued increase in gas demand, driven by power generation
- Increasing internationalisation of global gas market
- Inter-regional gas trade will grow significantly
- Development of LNG away from its niche role
- GTL emerges as major new market, monetising stranded gas

## European Market

- Demand rising by 1.8% a year, driven by power generation – although uncertainties remain
- Production declining by 1%+ a year
- Net imports treble by 2030 – from Russia, Norway, Algeria
- Russia remains largest gas supplier to Europe
- Gas-to-gas competition will lead to lower prices in Europe over next few years
- New gas supplies will be more costly and will prompt higher prices in the medium-to-long term

## Domestic Market

- Demand likely to grow at 2% pa to 2010 as economic growth outweighs energy conservation
- Production likely to stagnate at best given long lead-times for new developments
- Increased requirements for non-Gazprom gas
  - imports
  - independents
- Regulated tariffs continue to rise, reaching 50% of European level by 2010

## Structural Background

- Gazprom remains effectively a monopoly in Russian gas
- It will give up domestic market share but will remain the sole exporter
- Independents may ultimately gain access to the single export channel
- Pipeline business may be established as an independent entity similar to the position in the oil sector
- Development of new gas provinces within Russia
- Increased role for independent gas producers

## Development Opportunities

- Investments
- Pipelines
- Geographical diversification
- Sectoral diversification
- Reform



## Investments

- Continued development of Nadym-Pur-Taz region
- Beginning of Yamal Peninsula development
- Beginning of East Siberia development
- Barents Sea and LNG projects

## Pipelines

- North European pipeline (Germany and UK)
- Yamal - Europe expansion
- Bovanenko to Yamburg via Ob Gulf
- Bovanenko to Ukhta and Torzhok
- Central Asia – Centre pipeline modernisation

## Geographical Diversification

- Ukrainian transportation system
- Central Asian gas reserve development
- Exports to China
- International gas activities
- LNG

## Sectoral Diversification

- Power generation
- Crude oil

## Reform

- Domestic gas sector set for change
- Political drive for reform has stalled
- Economic pressures continue to mount
- Opportunities for independents, Russian and foreign oil companies
- Challenges include Gazprom culture, business environment and approaching elections

## Implications

- Gazprom will need to coordinate plans with the state and minority investors
- Some projects may have strategic value not evident to minority (portfolio) investors
- More rational decision-making at Gazprom
  - clear use of economic analysis
  - clear identification of political costs
- Independents need to tread a fine line between Gazprom and their shareholders