



The Urengoy Pipeline in the 1980s and the North European Pipeline in the 2010s: parallels and differences over 30 years

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Soviet Gas Sales to Europe: the Cold War Era

EASTERN EUROPE – CMEA/Comecon:

- **Part of CMEA cooperation (non-commercial terms)**
- **Legacy of dependence on Russian gas**

WESTERN EUROPE – OECD/EU:

- **Started in 1968 and increased slowly then much more rapidly in the 1980s because of**
- **The “Urengoy Pipeline” which became a *cause celebre* in trans-Atlantic relations:**
 - **National security arguments**
 - **Gas security arguments**
 - **Other commercial arguments (gas for pipes)**



Soviet/Russian Gas Exports to Europe 1970-2005 (Bcm)

	1970	1980	1990	2000	2005
Western Europe	1.0	25.5	63.0	90.3	111.4
Eastern Europe	2.4	32.1	46.0	38.7	42.9
TOTAL EUROPE*	3.4	57.6	109.0	133.7	160.3 (est)

*includes Baltic countries after 1990

Exports to Western Europe more than double 1980-90 largely because of the Urengoy pipeline



The Urengoy Gas Pipeline Project

- A major part of Soviet gas development in the 1980s – one of six pipelines
- A natural extension of physical infrastructure to achieve...
- Substantial increases in hard currency earnings

The Volumes (% of anticipated 1990 demand):

- Germany 11.2 Bcm (30%)
- France 8 Bcm (30%)
- Austria 1.5 Bcm (>80%)
- Switzerland 0.36 Bcm (40%)
- Italy (8.5 Bcm but actually) 4.5-6 Bcm (30%)



Tripartite “Gas for Pipe” Deals

Most of the early European contracts were gas-for-pipe deals involving:

- Pipe delivery contracts between European manufacturers and Promsyrioimport (Soviet Foreign Trade Agency)
- Loans from European bank consortium to Soviet Foreign Trade Bank
- Gas delivery contracts between European gas utilities and (Soyuznefteexport later) Soyuzgazport part of the Soviet Ministry of Foreign Trade

Very important commercial structure giving both sides strong incentives to participate



Role of Government in the Gas for Pipe Deals

- **State-owned companies in Europe (and in Germany, Ruhrgas) and the Soviet Foreign Trade Ministry were responsible for the gas contract**
- **Close cooperation between importing companies and their governments**
- **Import approval required by all European governments**
- **Goodwill declarations by all governments in support of the contracts**

Without European government support, Urengoy pipeline could not have succeeded



The Arrival of the Reagan Administration

- **Imposed sanctions against the pipeline in December 1981 after Martial Law was declared in Poland**
- **Presented arguments which were about “national security” as well as “energy security”**
- **Attempted to promote unrealistic alternatives to Russian gas**
- **Imposed unwise extra-territorial equipment sanctions which...**
- **Were opposed even by its strongest ally – Margaret Thatcher in the UK**

After serious divisions within the Alliance, sanctions were finally lifted in November 1982



European attitudes to Soviet gas supplies during the Cold War

- **Continental Europeans regarded Soviet gas as politically positive rather than as a security threat**
- **In Germany, this was part of “Ostpolitik” well before any suggestion of reunification**
- **Commercial importance of Soviet gas not just in terms of energy/gas imports but also in terms of equipment supplies (pipes and turbines in a depressed European market**

US/Europe disunity has never been revisited over Russian gas supplies



The North European Pipeline

- A major increase in Russian gas exports to Europe: 27.5 Bcm in 2010 (55 Bcm by 2012-13??)
- Part of a transit avoidance strategy which started with:
 - The Yamal pipeline across Belarus/Poland
 - The Blue Stream pipeline to Turkey

Transit avoidance has been a key feature of post-Soviet gas trade strategy; dates from the problems with Ukraine in the 1990s, followed by Belarus in 2004; Ukraine crisis of January 2006 has confirmed Gazprom's view of the correctness of this strategy



North European Gas Pipeline - milestones

- 1997: North Transgas joint venture established between Gazprom and Finland's Fortum (then Neste Oy) to carry out feasibility study of offshore section
- 2001: NEGP awarded Trans-European Network status and designated as a "project of common interest" within the EU-Russia Energy Dialogue
- January 2004: Gazprom proposal to appoint financial and engineering consultants approved by Russian prime minister Fradkov
- March 2004: South (Yuzhno) Russkoye field designated as source for NEGP
- April 2005: Wintershall to take 50% minus 1 share in South Russkoye field; Gazprom to increase its share in Wingas from 35% to 50% (minus 1 share)*
- September 2005: Wintershall (BASF) and E.ON take 24.5% shares in NEGP, leaving Gazprom with 51%

*E.ON may take up to 25% in the field in exchange for downstream assets 11



Objections to North European Pipeline

Poland and Baltic countries have:

- **objected to NEGP on the basis that it threatens European security of supply**
- **advanced alternative routes which would transit through their countries**

Belarus and Ukraine governments pointed out that NEGP is far more expensive than increasing capacity through their countries

Lack of investors other than German companies plus the role of former Chancellor Schroeder give the impression that NEGP is a “German project”



Urengoy and NEGP: parallels and differences

PARALLELS:

- the next major increment of Soviet/Russian gas export capacity to Europe
- central role of German companies (especially E.ON as a “greater Ruhrgas”)
- questions being asked about the wisdom of increased European dependence on Russian gas

DIFFERENCES:

- post-Soviet political climate much different to Cold War (although security still important)
- Urengoy confirmed the lasting importance of Soviet gas for Europe while...
- NEGP likely to be the last major expansion of Russian gas to Europe



In the Wake of Russia-Ukraine Gas Crisis of 2006: familiar questions from the 1980s

- **Is Europe already over-dependent on Russian gas supplies; should dependence be limited or reduced?**
- **Is Russia likely to use gas as a political weapon against: Europe in general, individual European countries?**
- **Does Russian gas play too big a role in Germany?**
- **Is the German political establishment correct to view Russian gas as “strategically important” rather than as a security threat?**

**Americans questions In the 1980s;
European questions in the 2000s**