Elaborate a bit further on market side of the coin and ask what they tell us on some core questions Robert has raised.

In particular, I would like to:
- Shed some more light on assumed link between Kremlin’s foreign policy agenda and Gazprom’s actions towards Russia’s near Abroad
- Look at chances of Russia redirecting gas supplies to China instead to Europe
- Briefly discuss what we should instead worry about.

1.) Is there a link? And more importantly: Consider Gazprom’s situation for a moment:
- Highly regulated domestic market (dual pricing system/ keeps prices low/ faction of prices charged WE clients/ home market does not generate a single RR of profits)
- To generate profits: foreign markets
- Either these markets are profitable (25% of production in WE = 100% corporate profits) / or rendered profitable
- push for end of subsidizing CIS countries/ higher prices
- gas disputes with Ukraine, Georgia and even Belarus, last remaining ally
- PR disaster for the Kremlin

At the same time:
- Gazprom tries to strengthen position on lucrative Western European markets
  o By enhancing grip on infrastructure delivering gas to Europe, including new Nordstream and Southstream pipeline projects
  o By locking up CA gas through long-term contracts
  o By buying into the lucrative downstream sector in Southeastern and CE
- Rational behaviour of a company!
- Obviously supported by the Moscow and its foreign policy.
- But: who is in driver’s seat? Not necessarily the Kremlin.
in line with Robert’s conclusion: Russian foreign policy is rather subordinated to the interests of especially Russian gas, not vice versa.

Answer is: not very likely.

True, China’s growth is legend

Has turned net importer of oil 15 years ago / imports 60% of its demand

Needs more of everything (raw materials, feedstocks, food); fast

One likely exception: gas

IEA, Chinese import market for gas will remain comparably small

- in 2030 130-160 bcm
- compared to > 200 bcm NA
- and over 750 bcm in Western Europe (substitute nuclear, try to turn green, abandon coal fired power plants)
- at same time: higher priced

reason: coal in domestic electricity consumption

cheaper than especially high-priced LNG.

so in addition to lacking infrastructure (as stressed by Robert):

- market size may simply not be big enough to justify redirecting supplies loose well paying customer, with infrastructure investment written off decades ago

we may see Sakhalin LNG rather being directed towards Freeport (Texas) or Zeebrugge in Belgium than to Qingdao or Shenzhen

2.) What should we really worry about?

Two intertwined trends: Maturing giant fields & fast rise in domestic Russian consumption

IEA estimates: Massive investment needs:

- ~ USD 400 bln in oil sector until 2030
- ~ USD 410 bln in gas sector until 2030

Oil sector may be responsive to growing demand and market signal
Despite recent takeovers of Sibneft or Yugansneftegaz: only 25% of oil production/16% of refining capacity under state control
Companies serve global markets and are profit driven

- Gas sector, however, may respond less:
  - Monopolist, Gazprom
  - Acts like a textbook monopolist!
  - Curb third party access to its domestic grid -> deprives independent producers of incentive to invest/increase production
  - Attempts to take over competitors/control them/drive them out of business (as recently observed with the takeover of a 50% stake in TNK-BP)
- At same time: No reforms in sight, that change the domestic pricing structure and liberalize market
  Energy use will remain terribly inefficient (400 bcm out of 600 bcm production consumed on domestic market -> growing independent producers will rather flare gas than feed it into grid; result: Russia will have hard times meeting its export commitments and growing domestic demand; if nationalization continues also in oil sector, also less efficiency there
  - Gas is already the slowest growing sector in Russia
  - Same investments problems!

Conclude by referring to Robert’s questions again:
  - Is the Kremlin ready to use energy in its foreign policy? Probably
  - Does it sit in the driver’s seat? Hardly
  - Does that relief us from thinking about Russian energy? No, but rather in terms of investment than in terms of geopolitics