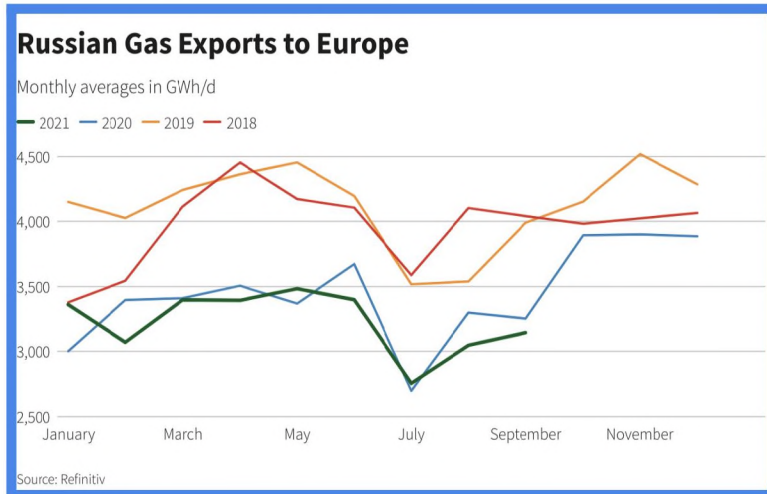


**How do we know that (1) Russia is withholding gas shipments to Europe (2) Gazprom’s decisions are impacting spot market prices?**

1. Gazprom increased production by 18% this year, which allowed Russia to **triple its exports to China and Turkey**, but not Europe.
2. Gazprom’s **storages** in Europe are **getting emptied** during the off-season, which stokes **market fears**.
3. **Additional transit capacity is offered by Ukraine** at monthly auctions. But Gazprom is choosing not to book them.



Between March and July this year, European **gas futures have doubled** in price. And, then, they **doubled again** in half the time from July to September.

On Sep 15th, Gazprom [announced](#) that its **gas production has increased by 19%** this year. It also makes claims about increased sales to Europe, but it’s important to point out that **sales include gas taken out of Gazprom-owned storages in Europe**.

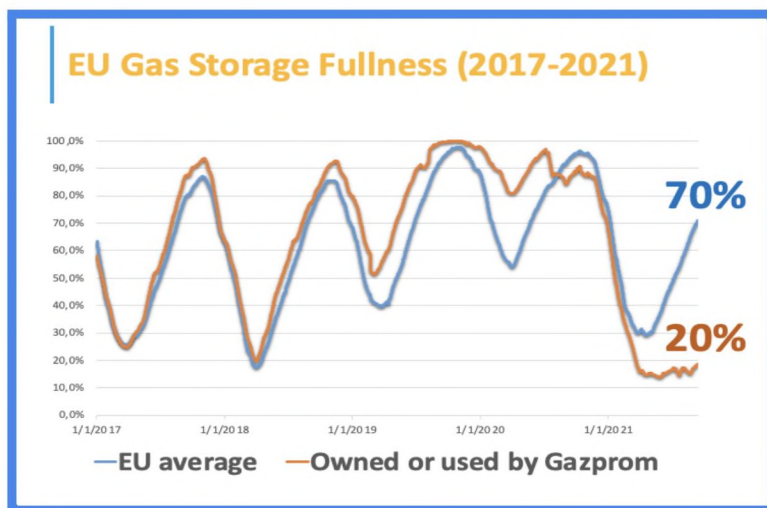
	Gas exports by Gazprom, bcm		
	Q1-Q2 2020	Q1-Q2 2021	2020 vs 2021
<b>Europe</b>	73,1	80,4	<b>10%</b>
<b>Turkey</b>	4,7	14,6	<b>211%</b>
<b>China</b>	1,6	4,6	<b>188%</b>

Source: Gazprom

If we zoom in on Gazprom’s exports during the first 6 month of 2021, the **relative increase of gas deliveries to Turkey and China was 20 times that of Europe**.

Gazprom’s exports to Europe increased by 10%, while exports to Turkey went up by 211% and to China by 188%

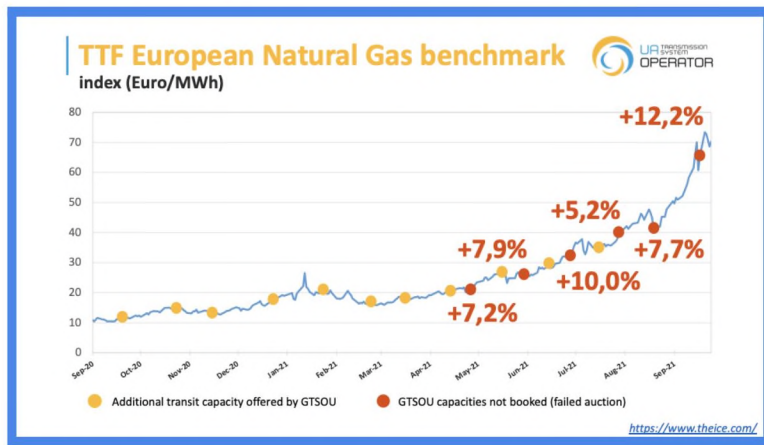
Q3 numbers aren’t yet available, but the trend has been further exacerbated



Instead of shipping additional volumes, Gazprom is taking gas out of its European storage facilities so that it can issue a blanket statement “we are delivering on our contractual obligations.” The effect of such “delivering” is a formidable market signal that creates fears in Europe of possible shortages in the winter.

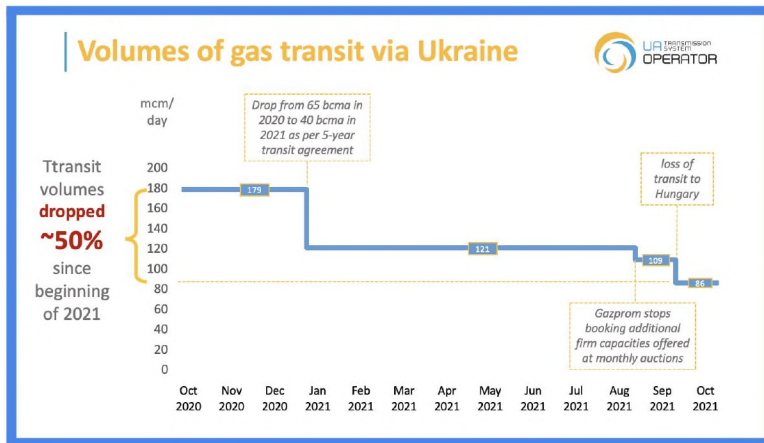
While the Kremlin’s spokesperson says “*The commissioning of Nord Stream 2 will balance natural gas price parameters in Europe.*” Ukraine’s transit network has spare capacity roughly double that of NS2

Source: GIE AGSI+



GTSOU offers additional capacities at monthly auctions. Few commentators, let alone the general public, would ever pay attention to those. But the auctions have proved to be a uniquely effective signaling tool for Russia. Every time **Ukraine's offer** of additional transit capacities was **snubbed**, the **prices went up**.

The **failed auctions** are becoming an ever **more frequent occurrence**, and the last such event has triggered the highest price jump yet (12.2%).



The completion of NS2 is incompatible with the preservation of transit through Ukraine, despite the public statements made by Angela Merkel and others. **Since the beginning of 2021, the transit volumes have already dropped by ~50%** and, under the current ship-or-pay contract, Gazprom could reduce it further, yet remain technically compliant. The **weaponization of the "ship-or-pay" arrangement is a real threat to Ukraine's security**. The Kremlin could use supply volatility (shipping minimal volumes one day and maximum the next) to impair GTSOU's ability to operate its gas transmission network. As long as it pays the bills, Gazprom can claim that it is not violating contractual obligations, and blame Ukraine for the operational challenges stemming from supply volatility.

The current daily transit volumes via Ukraine is 86 mcm. If NS2 operates at full capacity, it can handle 150 mcm.