

NEWSLETTER GME – New issue now online

Rome 15 October 2019 – The new issue of the newsletter of Gestore dei Mercati Energetici (Gme) is online and can be downloaded from the website www.mercatoelettrico.org.

The newsletter opens with an intervention by Agata Gugliotta from the RIE on the lack of a transit agreement between Russia and Ukraine just a few weeks after the onset of winter. The last face-to-face meeting between the former EU Energy Commissioner Maros Sefcovic and the Ukrainian and Russian Energy Ministers Oleksiy Orzhel and Alexander Novak took place on 19 September but achieved nothing. *"The negotiations, which have been going on since April 2018, will resume at the end of October, while in the meantime technical interactions will continue. Hopefully, an agreement will be reached before 31 December, namely the expiry date of the contract in place stipulated in 2009, or even more hopefully by 1 December so as to be able to reserve capacity for next year"*, highlighted the analyst of the RIE. However, what appears to be a common contract for the transit of gas from one country to another, actually *"conceals a difficult and prolonged dispute between two countries, Russia and an ex-satellite country, Ukraine, or even between the Russian company Gazprom and the Ukrainian company Naftogaz, in the middle of important economic interests. As if that was not enough, it goes beyond the borders of these two countries, with direct implications for Europe's energy security"*, Gugliotta explained. For Russia, *"Ukraine is currently the most important gas transit country: in 2018 over 40% (about 87 billion cubic meters) of exported Russian methane went through the former Soviet republic"* and *"bypassing Kiev through alternative routes is not currently a viable solution, given that the gas pipelines in the north (the North Stream 2 with a capacity of 55 billion cubic meters) and in the south (the Turkish Stream with a capacity of 15.75 billion cubic meters) have not been completed yet"*, the RIE researcher pointed out. For Ukraine, *"giving up on the the transit of Russian gas would be very economically inappropriate, since the revenues guarantee 3% of GDP and 4.5% of all the country's exports"*. Finally, for Europe, *"which is the main destination of Russian gas, a possible supply block could have serious consequences. According to the latest data released by Gazprom, in 2018 Europe (with the exclusion of the countries that were formerly part of the*



former Soviet Union) bought 200.8 bln cubic meters (+ 4% compared to 2017), cumulatively, from the Russian company, equal to about 43% of its gas consumption, of which, as already noted, about 87 went through the Ukrainian gas pipelines". However, "despite the optimism of the EU representative, the situation remains difficult and delicate and the positions are far from being similar on some important points (volumes, tariffs, duration)", Gugliotta explained. Therefore, what are the possible future scenarios, in view of 31 December? "Political reasons, economic interests, external interference (primarily the United States), the evolution of gas demand in Europe, North Stream 2 and Turkish Stream timelines, are just some of the variables that, if combined, could lead to different scenarios. However, among the different possibilities, three main scenarios can be identified: Signature of the agreement and persistence of the status quo; No agreement and termination of transit of Russian gas from Ukraine; Intermediate scenario with a short-term agreement", predicted Gugliotta, arguing that in order to answer questions about the success or failure of the agreement, duration and characteristics it will be necessary to wait. "We hope that the aftermath of this war, fought through energy flows and that goes beyond the geopolitics of space, will be limited, because 1 January 2020 is upon us and, as in a famous collection by George Martin, 'winter is coming' " concluded the RIE researcher.

The new issue also includes the usual technical commentaries on the markets and the national and European electricity and environment exchanges, the section devoted to the analysis of the trends of the Italian gas market and the section with an analysis on European trends, which delves into trends in key European commodities markets.

The GME's new publication also reports, as customary, the summary data of the electricity market for September 2019.

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