

Energy Intelligence. Spimex: Gas Crisis Shouldn't Stop Russia's Liberalization Plans

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The European gas crisis is not a reason to abandon attempts to liberalize the Russian market, St. Petersburg International Mercantile Exchange (Spimex) President Alexei Rybnikov told Energy Intelligence in an interview. On the contrary, the situation represents an opportunity to learn how to mitigate risks of price spikes on a liberalized market, he said.

Since 2014, Spimex has operated the country's open gas exchange trade, with a focus on the domestic sales. It hopes to establish a gas price benchmark as part of the long-delayed price liberalization project in Russia. Over the seven years, however, Spimex has failed to reach enough liquidity, and the gas exchange trade looks stagnant now. Nine-month sales dropped 57.2% on the year to a little more than 5 billion cubic meters (see graph).

The gas exchange trade is struggling in Russia not least because of a reluctance on the part of both regulators and the largest producers to change the status quo. Further, Moscow's blaming Europe's reliance on the spot gas trade for the current supply crunch might send an even more worrying signal to Spimex and other supporters of the gas exchange trade.

Different Commodity

"Overall, exchange trading in gas is not effective since it carries multiple risks, and we have always told [the Europeans]," Putin said at a government meeting last week in reference to Deputy Prime Minister Alexander Novak's proposal to sell additional gas through Gazprom's Electronic Sales Platform (ESP) in St. Petersburg to help cool European prices. To be sure, ESP is not really a gas exchange but rather a platform for closed auctions, as Gazprom is the entity that puts volumes on offer and picks the buyers based on bids.

Putin's comments largely reflect the Kremlin's common distrust to something that is insufficiently regulated, especially when it comes to such sensitive and strategic matters as gas supply, where acute price spikes can provoke social unrest. "After all, this is not like trading in watches, underpants or ties, or cars," the president said. "It is not even like oil, which can be produced and stored anywhere, including in tankers, waiting for the market situation to clear up. Gas is different, since it cannot be stored this way."

Putin said Europe made a mistake by pursuing a policy of curtailing long-term contracts and expanding spot trading. In saying so, he echoed Gazprom, which insists that “hypervolatility” of prices is only in the spot segment, which accounts for 30% of the total European gas market. Gazprom, itself much criticized for restricting the supply to Europe, blames LNG, which “voted with its wallet and went to premium [Asian] markets, virtually leaving Europe face to face with all its current problems,” as Gazprom Export CEO Elena Burmistrova said at the St. Petersburg International Gas Forum last week.

Crisis Lessons

The European crisis should not stop Russia from developing its own gas exchange trade, Rybnikov said. The European market will overcome this crisis, and largely because it has a basket of various instruments, including long-term contracts, spot sales and futures contracts which help mitigate various supply risks, he said. “For Russia, this is a good example, because we need to have a similar set of products,” Rybnikov added.

The new national plan for the development of competition, published by the government in September, states that a liquid gas exchange price benchmark should be achieved by the end of 2025, compared with the previous plan to do so by the end of 2020, which failed to fully materialize. Rybnikov said the actual steps to achieve this and meet the deadline will be set in a road map expected in the first quarter of 2022. The target can be achieved earlier, given what has already been done, he added.

Spimex has launched several mechanisms to improve flexibility of trading and is preparing to launch gas futures, Rybnikov said. However, attaining sufficient liquidity remains a key problem, particularly since Russia's largest producer, Gazprom, has apparently lost interest in selling more volumes on the exchange. Now the gas giant is selling next to nothing since, in its own words, it needs to dispatch more gas under direct contract to cover buyers' growing demand.

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