



European gas supplies and a more than gentle cough from Russia

Posted by [Heading Out](#) on April 25, 2006 - 1:16am

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You may have noted a couple of posts recently concerning the relationships between Gazprom and its customers. More particularly the pressure being put on places such as [Armenia](#), [Belarus](#) and now the [UK](#) to allow Gazprom to take over the distribution companies for the natural gas.

Well, just in case the message wasn't getting through, there now comes [a new threat](#). The West has been benefiting too long from Russian largesse, in terms of oil availability.

Russia plans to cut oil supplies to Europe, diverting shipments from "overfed" European markets to Asia, Semyon Vainshtok, president of pipeline monopoly Transneft, said in an interview published Monday.

"We have overfed Europe with oil. Every economics textbook says that surplus supply lowers prices," Vainshtok said in an interview published in Nezavisimaya Gazeta. "But we can't reduce supply -- all our exports are oriented toward Europe."

That will change with the construction of the Eastern Siberia-Pacific Ocean pipeline, which will feed energy-hungry Asian markets with up to 1.6 million barrels of oil per day, Vainshtok said.

"As soon as we turn to China, South Korea, Australia, Japan, it will immediately take away a portion of oil from our European colleagues," Vainshtok said.

One of the other problems appears to be that, because Russian oil is higher sulfur, it retails at a lower price than the sweeter North Sea oil, and this is also causing some ruffled feathers within the high offices of the Kremlin.

And lest you think that this marks the end of the acquisitions that Gazprom plans, they are also now in [talks](#) that may end up giving them control of Dutch gas supply lines. In the meanwhile they have delayed a decision as to who will be their partner in the [Shtokman field development](#), though planning to sign an agreement with German companies to develop [Yuzhno-Russkoye](#) which holds about 500 bcm, Germany's consumption for about 5 years.

This seems also to have caught the attention of the US Dept of State, with [Secretary Rice](#) urging Greece to keep Gazprom out of a pipeline deal between Greece and Turkey.

The US, a keen backer of Greek-Turkish co-operation, wants to see both countries reduce their reliance on Russian gas supplies. That is understood to mean excluding Gazprom from the new project, whether as a shareholder in the pipeline company or as a gas supplier.

Ms Rice is likely to suggest that Greece and Turkey make a long-term deal to buy Azerbaijan gas supplied by an international consortium led by BP and Norway's Statoil, which is due to come onstream in 2007.

The €600m pipeline project, a joint venture between Depa and Botas, the Greek and Turkish state gas utilities, was originally launched as a means of supporting a political rapprochement between the formerly hostile neighbours rather than an alternative route for channelling gas to western Europe.

Unfortunately Gazprom is already a part of the action, and may be hard to dislodge. The new pipeline will also extend over to Italy, though given some of the problems they had with Gazprom last winter, I am not sure that is completely reassuring news.

And while Jerome is confident that Russia has the control and the reserves to pull all this off, I note the story in the [Herald Tribune](#) which notes that the Chinese are nibbling at Russian supply and trying to draw Kazakhstan into their sphere of influence - a zone that might, in time also include Turkmenistan. Yet, as he notes, right now it may well be Gazprom that holds most of the cards, and thus can apply the pressure to get what it wants. And with production from the North Sea falling, the countries of Europe have to find alternate supplies for the long-term. But, with this size of a hint, perhaps it is time that they all started looking a bit harder.



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