



Gazprom and the G8

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Tags: [g8](#), [gazprom](#), [lng](#), [natural gas](#), [qatar](#), [united kingdom](#) [[list all tags](#)]

As the G8 finance ministers have been discussing the state-of-the-world, prior to the meeting of the principals in mid-July, our friends at Gazprom seem to be [adding a little more sand](#) to the gears of international diplomacy. The first problem that arises is, as has been noted by several of us over the past year, that Gazprom has been acquiring controlling interests in the distribution networks of an increasing number of countries. It has recently negotiated to [take a share](#) in the second gas pipeline to run from mainland Europe to the UK, and is trying to [acquire Centrica](#), the British gas supply company. There is some resistance from the British Government to this move, though that is not [universally supported in the UK](#). Now the second shoe is hanging, rather openly, in the air.

It relates to the Energy Charter.

The treaty governs energy investment and transit among 51 signatory nations, including Russia, which signed the treaty in 1994 but has yet to ratify it. The treaty would require Russia to allow other Energy Charter countries access to unused pipeline capacity, which Gazprom fiercely opposes. Such a step would effectively break up Gazprom's monopoly on gas exports to Europe.

Not only to Europe (there is legislation just introduced that would give Gazprom a [monopoly on gas exports from Russia](#)) but given the network control that Gazprom has achieved, potentially Gazprom now has the assets to control gas distribution throughout Europe. Further, without ratification of the Charter, Gazprom can deny the pipelines to others (such as for example [Turkmenistan](#)). As the French Minister Breton noted:

Breton stressed that Russia had signed off on the final communique, which stated "the importance of the principles of the Energy Charter, of diversification of energy markets and supply sources."

"If these principles are recognized, they need to be applied," Breton said.

"Unfortunately, we were unable to reach agreement with our Russian partners" about ratification, he said.

And, from the Times story,

The EU is concerned that Gazprom's monopoly position could make it difficult for Russia to meet Europe's growing energy needs. Marc Franco, head of the Commission's Moscow

office, said: "Gazprom is underinvesting in production, but isn't letting anyone else export. It's bad for Russia, and it's not good for us."

Gazprom and its controlling shareholder, the Kremlin, refuse to consider opening up the export system to foreign companies. Dmitri Medvedev, the Deputy Prime Minister and chairman of Gazprom's board, said this week: "Gazprom is a unique company because of its importance to the Russian economy. It would be naive and foolish to destroy this system just to create opportunities for competitors."

There is that [Monopoly](#) theme again, out front and unabashed.

Interestingly, at the same time, BP are selling more of its [Russian assets](#) to a consortium that includes both Russian Rosneft and Chinese Sinopec. It is interesting to note that while

The potential deal involves the Udmurtneft part of TNK-BP, which produces 120,000 barrels a day of heavy crude and holds reserves of 1bn barrels but is in need of new investment.

that the article goes on to comment that

Udmurtneft is a producer of heavy oil and, while analysts speculate the price could reach \$3bn-\$4bn, this would be a high value for mature Russian assets far from export markets. Gazprom's Sibneft plus Hungary's MOL and India's ONGC are also in talks to buy the firm.

This is the same BP whose Chairman has, as has been discussed in earlier comments, recently forecast the [return to \\$40 oil](#). Since the Russians have occasionally commented that they are not expecting their exports to increase very much, one is left wondering where the good Lord (Browne that is) expects it to come from - other, of course than from the planned developments that Chris Skrebowski and CERA have previously listed, and which appear to be [less than likely](#) to reach the production levels for such a forecast.

Speaking of our good friends at CERA (grin) I note that they are predicting that the global LNG market will double in the next few years.

"CERA's 2004 projection that the LNG industry would grow in the eight years to 2012 by the same amount as in the first 40 years of its history now looks, if anything, overly cautious," CERA's Senior Director for Global LNG Michael Stoppard said in the report, "Progress in the Face of Adversity."

"The industry will probably double in six or seven years relative to 2004," he added. More than 25 million metric tons of new liquefaction capacity has been commissioned since October, adding 18% to global capacity, according to Stoppard.

There is a concern with this, and it relates to:

CERA said global LNG supply capacity will rise 60% by 2012 or earlier, with almost half the construction occurring in one country and on a single site--Ras Laffan in Qatar.

The combined capacity of Qatari LNG investments focused just on the US is broadly equivalent to the proposed capacity of the Alaskan pipeline,

The concern, of course, is related to the condition of the North Field, which [Dave caught](#) in his recent excellent post on the moratorium over there. Interestingly, however, a gas to liquids (GTL) plant has [just been inaugurated](#), with others planned.

And if I raise further evidence that mining companies and their governmental overseers are not totally insensitive to the environment, it should be noted that Syncrude has had to shut down it's new [third stage operation](#) because the "cat pee" smell was offensive to local inhabitants. The loss in production is cited at 2 million barrels of oil over the time taken for the projected repair. In addition the company is adding additional flue gas desulfurization (FGD) to their [existing plant](#) to further lower sulfur dioxide emissions.



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