



A BBC view of natural gas supply

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Tags: [bovanenkovskoye](#), [gazprom](#), [obskoy](#), [sakhalin](#), [shtokman](#), [tazov](#), [yamal peninsula](#) [[list all tags](#)]

The BBC, on Channel 4, has just issued an analysis of oil and natural gas called [Over a Barrel](#). Lest you feel impelled to search the dial, I should perhaps warn you ahead of time, that a favored expert is the good Dr Yergin. And so their opinion seems to be that the oil peak will not be a concern until 2020, but that the gas situation is worse. Not because there is a real shortage, but rather, as has been discussed here, because of the behavior of Russia, who supplies an increasing portion of European gas. A lot of the worry comes because Gazprom is spending more money on other investments, by a factor of three, rather than putting it into the development of their available fields, such as those in the [Yamal Peninsula](#), Barents Sea (mainly the [Shtokman field](#)) and in the Far East. Gazprom seems to be investing in distribution systems, and other businesses, and looking to foreign investors to help in field development.

Russian natural gas production developed through a [series of fields](#). Back in 1966, the world's second largest gas field at [Urengoy](#) came on stream. (It is second only to the North Dome/South Pars field that lies between Iran and Qatar). And as a Trivial Pursuit comment the name means "rotten godforsaken place" in [Nenets](#). Russia's second largest field is [Yamburg](#) which was added to the network in 1984. Gazprom, itself, was founded in 1989. The third largest field in Russia is [Bovanenkovskoye](#) which is in the Yamal Peninsula. It is anticipated to cost \$70 billion to develop, something that is now anticipated to start in 2008. [Orenburg](#) is the largest field outside Western Siberia, and is under production. They have yet to decide who is to partner with them to develop [Shtokman](#) although the rumor has been that it will go to Norway. Again that will require significant western investment.

While the article discussed the relative benefits of calm, rather than anxiety in dealing with Russia, it did raise the issue of trust, and the relative distribution of Russian gas between the domestic and export markets. This is an issue of obvious concern, both internally to Russia and to Europe and the possible LNG customers in North America.

A recent [study](#) has suggested that there is not, at present, enough gas to go around.

ensuring domestic supplies would also require that Russia decrease exports of natural gas to European markets, according to the report, which notes the potential consequences for the CIS, Asian-Pacific, and European gas markets. "Taking into account the objective results, in the future one cannot discount the growing internal demand for gas," the NIIGazekonomika study states. "The fulfillment of any of the scenarios presented can potentially lead to an inability by Russian Federation producers to meet demand for gas in both domestic and foreign markets. This situation in turn can prevent double-digit Russian GDP growth and can disrupt gas export obligations."

Such gas is currently anticipated to be on the market is in the hands of a very small number of people. Further, the widespread assumption that the "market will prevail" is not seen as working, since increasingly, supplies are being tied up in long-term contracts. Part of this distrust in the market is apparently coming from the Chinese, who are assiduously lining up supplies now, rather than anticipating being able to acquire them, as needed, on the spot market of the future.

As a result, without investments in the so-far undeveloped fields, such as those of the Yamal Peninsula and those in [Obsskoy](#) and [Tazov](#), there will not be enough natural gas to go round. And because of the way that Gazprom is currently making investments, outside the industry, it will increasingly need foreign investment if it is to exploit the fields that it needs, in time to meet foreign expectations.

And Gazprom is challenging the rights of others to run pipelines where it has interests. Gazprom is fighting the plans of [ExxonMobil](#) to run a gas pipeline from Sakhalin Island to China. They want to run their own.

"(Exxon's pipeline) is not foreseen in the programme of development of Russia's Far East and East Siberia and does not meet the goal of a complex development of gas transportation system in the country's east," the source was quoted as saying.

Gazprom wants to build two pipelines from Siberia to China, which would supply up to 80 billion cubic metres per year.

The BBC article pointed out that more of the world's natural gas is being transported by LNG tanker (as appears to be the favored method from Sakhalin) but with tanker numbers needing to triple, supply chains are becoming longer and more complex, and the security has not been addressed.

Bear in mind that natural disasters can be much worse than terrorist attacks, and that while the United States have not seen hurricanes this season yet, China has been hit [six times already](#), with Prapiroon having just diminished to tropical storm status. The article points out that both China and India are building oil stocks to guard against such disruptions. However, while the facilities have been in place for a time, the costs of oil have so far been reported to have slowed down the actual filling of them.

China has paid a lot of money to establish positions around the world - but they have a different utility curve, and have made a commitment to security that others have not. Thus they are buying into new fields, rather than relying on the production of older fields as do other world customers (such as us) and who will, accordingly see the impacts of depletion earlier. However Dr Yergin felt that we were putting more effort into producing more efficient cars.

The article ended with the need to cooperate and integrate European and US oil and gas systems, to confront the current situation. Whether the EU can do this, to ensure energy security, is a critical series of issues for the EU. But it requires that each country realize the crisis and that it has to work with others to find a real answer. Otherwise Gazprom will divide and rule.

It notes that there is more to energy security than exporting our values.

And as a final note, as we try and assess whether Russian oil production is nearing a peak, it is a little more difficult to do, when companies are producing oil [off the books](#).

The West-Siberian Noyabrsk Prosecutor's Office in Russia's Yamal-Nenets autonomous district has opened three cases against Sibneft-Noyabrskneftegaz, accusing the company of producing over RUB 15 bln worth of excess oil in 2001-2005, Yevgeny Mikhnov, a senior prosecutor's assistant, told Interfax.



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