More thoughts about Gazprom

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Well, I had to think about this for a little while, but I have decided to draw your attention to the BBC commentary on the current European vs Russian situation in regard to fuel pipelines, as described by Mark Mardell at the BBC yesterday.

> "You know what happens when they get in the same room as Putin. They all drop their trousers and say 'I love you Vladimir'." This is the gloomy and cynical view from a senior EU insider, of the leaders of the European Union's 25 countries. Perhaps it's intended to chivvy rather than insult. But there is no doubt that the EU summit in Finland is a rather odd event.

There has been much debate over the reliability of the Russian oil and gas supplies to the rest of the world, with many commentators noting the historic reliability of the source. But as Gazprom takes over an increasing percentage of the world's delivery system, there are some concerns that perhaps need to be highlighted. This is particularly true for the United States with our "Just in time" philosophy, which (as I noted) James Woolsey worried about in St Louis.

The BBC article notes three concerns with the situation a) the threat of a supply disruption, b) the increasingly monopolistic position of Gazprom as a supplier, and c) the lack of a common resolve among nations as to how to deal with this.

Perhaps the greatest issue is with b) and as the article notes

> At a time when the EU is trying to persuade reluctant countries to open up their energy markets to the fierce winds of competition and abandon the French idea of "national champions", Gazprom is a very vivid example that such allegedly old-fashioned out-of-date thinking can work dramatically well for the country concerned. Take a little bit of communist-era central control, a little bit of hyper-capitalist ruthlessness, a big dollop of political muscle and... hey presto you have unbeatable competition. The European Union aim is to get an agreement that Gazprom will give up control of its pipelines and let other companies share the routes. The technical term for this is, I believe, a "pipedream".

One might equally well, I guess, now describe the assumption that the US would eventually get 10% of its natural gas, as an LNG supply, from the Shtokman field. However the date of that production is likely to move back, even from 2015 if the negotiations on who is going to do what become as protracted, as the negotiations over who would be partners. The reason for the decision to direct the flow primarily to Europe was

> "This decision is a further guarantee of the dependability of Russian gas deliveries to Europe for the long term, and it is proof that the European market has the highest importance to the company," Miller said.

Interestingly the decision that Gazprom would, "go it alone" is now being reported as being because the field is both larger than originally anticipated, (up from 3.7 to 4 trillion cubic meters) and that it would be easier to access than had been estimated earlier. By 2015 the Russian Energy and Industry Minister projects that Russia will be exporting 257 billion meters of gas a year, up by 52% from current levels. For those who have been projecting that oil production would decline, he reports:

> The minister also said Russia's annual oil production could increase from 472 million tons (3.47 billion barrels) in 2005 to 542 million tons (3.98 billion barrels) in 2015.??"Oil output growth will be ensured by the development of deposits in East Siberia and the Far East," he said.??
>
> Khristenko also forecasted that Russia will increase exports of Urals crude from 253 million tons (1.86 billion barrels) in 2005 to about 300 million tons (2.2 billion barrels) in 2015.

That would give an export level of around 10.9 mbd, which is above what others have been projecting, and a growth at a time when they are currently anticipated to peak by the end of this decade.

Gazprom is currently talking to Korea about piping gas down there in the 2012 to 2013 time frame, though the supply might start earlier as an LNG feed. Earlier this week Gazprom started one pipeline to China from Western Siberia that will carry 30 billion cubic meters a year. It anticipates a second of similar or larger size may be installed later. The article suggests that supplies for the second are to come from Sakhalin Island and perhaps Kovykta, with a start date in 2011. Gazprom is considering building the pipeline for Korea (which goes back to point b above).

Going back to the gas supply to Europe, and relating to concerns about gas storage, Gazprom has just purchased an abandoned mine in Germany, to fit into the new Baltic pipeline.

> ZMB (a Gazprom subsidiary) said the company would spend €100 million to €300 million, or $125 million to $375 million, over the next five years. Once constructed, ZMB said it would provide storage capacity for the joint German and Russian gas pipeline which is scheduled to be completed in 2010. That pipeline, called the Nord Stream, would for the first time allow Gazprom to send gas directly from Russia to German via a pipe constructed under the Baltic Sea. It will move up to 55 billion cubic meters, or 1.94 trillion cubic feet, of gas a year. The point of entry for Russian gas will be in northeastern Germany, near the planned storage facilities.

The article also notes

> Last June, Gazprom and Mol, Hungary's oil and gas company, agreed to build natural gas pipelines and underground gas storage facilities in Hungary aimed at reducing Russia's dependence on Ukraine as its main transit country and also having enough reserves of gas to handle any sharp rise in demand.

And in regard to point c above, it is worth noting the various government positions going into the Energy Summit in Finland

> EU countries differ on whether the bloc should treat Moscow more as a strategic partner and supplier of a quarter of its gas, or as a bully in its ex-Soviet backyard and using energy as a political weapon.
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> Former Soviet satellites in the Baltic states and central Europe want a tougher EU line. Diplomats said Polish Prime Minister Lech Kaczynski urged other EU leaders at the talks to maintain a united front at the dinner with Putin later on.
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> However they said French President Jacques Chirac took another tone, stressing the need for the EU and Russia to understand that their interests were broadly complementary.
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> European Parliament President Josep Borrell said the EU would lose face unless it raised its concerns with Putin, and insisted the huge European market for Russian energy was a bargaining chip in its favour.
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> "There is gas flow and there is cashflow," the Spanish Socialist said. "Russia needs cashflow, you can't eat gas."

Hmmm! Well the Energy Dinner is now over, and somehow I can't help but get the feeling that, in certain parts of Europe, folks are starting to look for their belt buckles