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# Further to your comments on Gazprom

Posted by Heading Out on October 22, 2006 - 11:59pm
Topic: Supply/Production
Tags: gazprom, natural gas, russia [list all tags]

In following up on my post the other day about Russia I have been struck, again, by how much value I (and presuming the rest of the readers) get from the contributions that come as comments. Consider that when I wrote the piece, I was talking about how much grip Russia was taking over European fuel supplies. It was therefore a nagging concern to read David Tomlinson's comment with reference to a Newsnight piece that for some reason I could not access. However his notes and the figures that he quoted, were sufficient to drive me to a piece by Vladimir Milov at the Institute of Energy Policy in Russia. I am going to steal a couple of graphs from the top presentation listed, which was given to the World Bank last week. The news about long-term Russian investments in new gas production that was presented is quite worrisome, coming as it does at a time that the reliance on future supply is becoming more critical. There are also Russian domestic concerns about supply, that I will come to later.

UPDATE: The situation may be a little more critical than I had thought according to the new article from Radio Free Europe .

> EES head Anatoly Chubais is concerned. He has placed the blame for the potential gas deficit squarely on Gazprom, which controls 25 percent of the world's gas reserves and 94 percent of Russia's natural gas. Chubais has said that Gazprom is unable or unwilling to supply generating companies in Russia with enough gas and this has forced them to buy more-expensive diesel fuel to power their plants. . . . .Chubais told the "Vedomosti" business daily on September 28 that when he met with Gazprom CEO Aleksei Miller to discuss this problem, Miller told him to switch to other fuels.

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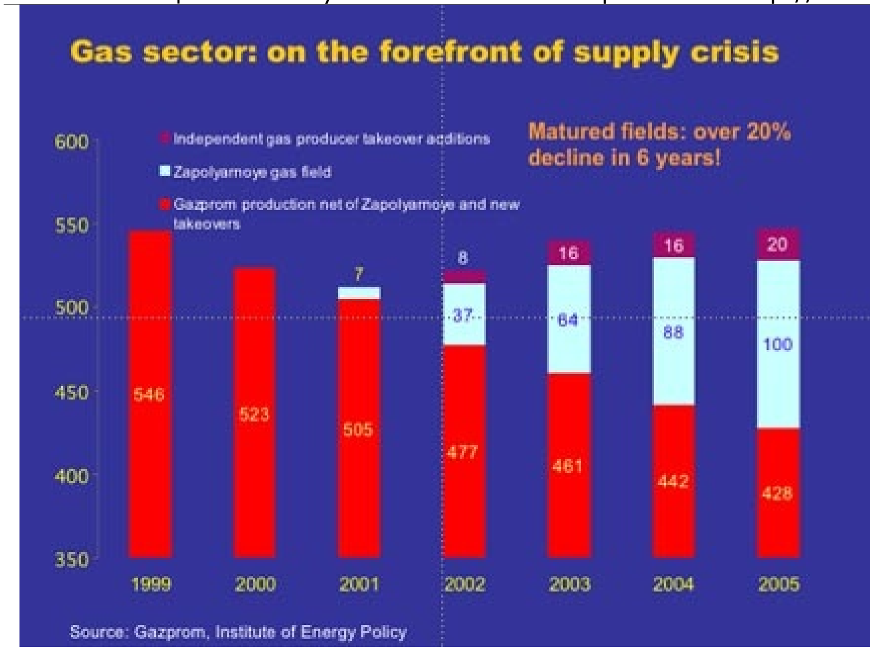
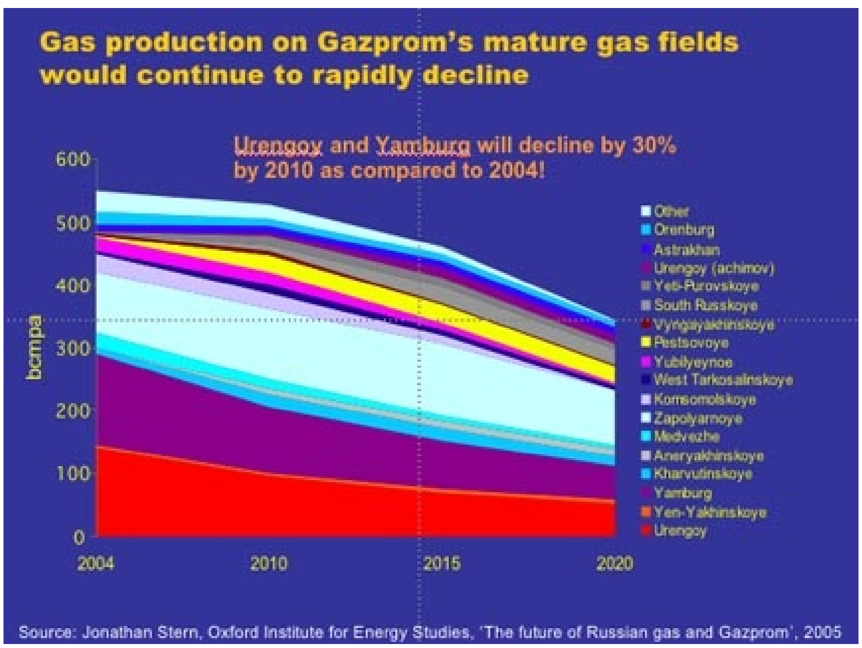
So what is the situation, well according to Milov, Gazprom production has been stagnating at around 400 bcm for the past four years, while it has been the independent companies who have increased production by nearly 14%.




He looks at production from the major fields in Russia, and gives a plot that looks remarkably like some plots we have seen of production closer to home.




The concern that is expressed is that Gazprom is not making the investment in new field production that is required and that, for example, the 3 Yamal fields that should have been starting production in 1995, are now apparently not slated to appear on line until the 2011-2012 timeframe. Given that we have seen other project deadlines apparently slip, then the concern again begins to arise as to the reliability of gas in the shorter term.

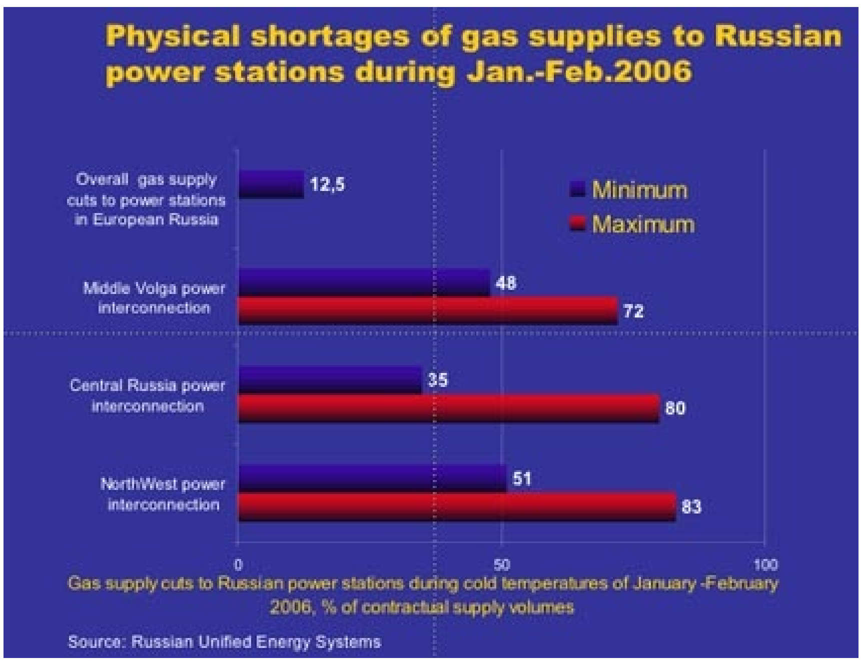
This is a concern in Russia also, on Thursday President Putin gave a deadline for a plan to forestay a gas crisis. For while energy demand has, until recently been growing at 2%, in the last nine months it has jumped 4.8%. As the BBC note

> According to the International Energy Agency, Gazprom has commissioned just one new gas field in 20 years.

> And it says that could lead to a shortfall because three of the company's most important fields here in Western Siberia are now in decline.
>
> "There could be quite a large gap between what Europe needs and what Gazprom is able to produce, assuming there is no investment in new production," one analyst told the BBC.

There is a concern that Gazprom is investing too much overseas, in places like Bolivia and Venezuela, while neglecting the home front. Given that Russia continues to allow Gazprom the ability to deny its pipelines to its competitors, and that Russia is still very loath, if not increasingly so, to allow foreign access and investment, perhaps the future is growing dimmer faster than we had thought.

October is rather late in the year to have to be trying to ensure this years gas supply, and when one considers the shortages from last year, one can imagine that some mayors over there might be anxiously concerned that this year may bring more worries. The numbers from last year, as reported by Milov, are not encouraging, and they don't make me a Russophobe.




Space and time doesn't let me do more than direct you to the rather lengthy but very detailed different view of the situation that Don in Colorado pointed to, which gives a more global view to what is going on in Russia.

Crafty also has a lengthy and detailed review, which is less optimistic about Yamal than some, and concerned about Shtokman. It's a pity that it was so far down - so go read, if you haven't. And be amused by Putin's Smile.

And again, thanks to everyone for the comments, they are all appreciated.