The Oil Drum
DISCUSSIONS ABOUT ENERGY AND OUR FUTURE

Gazprom, Russian plans and that niggling worry...

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Reading the piece that Leanan has in Drumbeat about the continuing cost increases for natural gas in Ukraine, following the agreement last year with Russia on sustained deliveries, I was struck with the contrast to an earlier item on anticipated costs for natural gas in the UK. In the Ukraine costs are going to be going up another 40%, while in the latter the wholesale price of gas in the UK has dropped by more than 50% since June, and this is projected to extend into the future. With that thought in mind, and given that part of the supply for the UK will likely increasingly come from Russia, I thought I would have another little look at what is going on with Gazprom.

In the Ukraine the agreement last year almost doubled the natural gas price (raising it to $95 per thousand cubic meters (tcm) . Belarus just signed a deal that will cost them $100 per tcm, while Georgia is now paying $235 per tcm . The price that Belarus pays, however, is given as $70 in cash and $30 in shares of the Belarus pipeline company Beltrangaz. Over the next four years the price will rise to the European price (currently the one that Georgia is paying) and by that time Gazprom will own half of the company.

Incidentally Gazprom is still continuing to expand, Rigzone is carrying a story that they are now exploring for oil and gas in Tajikistan. Now hands up if you know where that is! I suspect that a better familiarity with the countries that lie East of Georgia is going to become useful in the years ahead. For those who don't know, it is right hand down a bit from Turkmenistan, lying north of Afghanistan, and on the Chinese border. I would insert a map to show you where, but have unfortunately not yet learned how to do this with our new format, so can only direct you to those that you can find at the map collection of the University of Texas.

And, while that source of supply is some time away, Russia's Economic Development and Trade Ministry has projected their production and export targets for the years through 2010.

> It said Russia's 2010 natural gas production will increase to 722 billion cu m in 2010, following 655 billion cu m in 2006, about 668 billion cu m in 2007, 683 billion cu m in 2008, and 705 billion cu m in 2009.
> It forecast gas exports of 202.5 billion cu m in 2006, 200.8 billion cu m in 2007, 208.5 billion cu m in 2008, and 218.4 billion cu m in 2009.

The ministry said oil production will grow to 512 million tonnes in 2010, following 480.4 million tonnes in 2006, 492 million tonnes in 2007, 500 million tonnes in 2008, and 507 million tonnes in 2009.

It expects crude oil exports of 251.5 million tonnes in 2006, 262 million tonnes in 2007, 269 million tonnes in 2008, and 274 million tonnes in 2009.

However the Minister, German Gref also noted that Russia will be changing the market rules.

> Due to such factors as the Russia's annual oil production on the level of 470 million tonnes, 35 billion tonnes of available reserves (the second place in the world) and total annual oil export on the level of 260 million tonnes (2 place in the world) and well as the fact of being the largest oil/oil products supplier for the European market (30% of the market), Russian oil companies are able to exert no influence on the price policy and even do not have the right on transparent pricing rules.

These facts explain the decision about necessity and importance of a new oil marker and, as a result, formation of a new price indicator fairly reflecting the global demand and supply on Russian export oil.

To solve this task we took the first step and offered a new product (Russian Export Blend Crude Oil - REBCO) to the international market. The new brand is to replace the existing stereotype Urals and should have quite a new pricing basis unlike Brent quotations.

NYMEX as the most authoritative global hydrocarbon exchange, which trade turnover exceeds $60 billion, was chosen to be the place for the pilot triggering of the new REBCO brand. The first trades were held on October 20, 2006.

The operation of the Russian exchange in St Petersburg and daily trading in REBCO oil in rubles will be launched before the end of 2007.

And lest you think that Gazprom is not also raising some questions at home, the interview ends with the following:

> It is no secret that the main deposits of Gazprom JSC located in the Nadym-Purtazov region show the decline in production. Large funds are spent to maintain the appropriate gas production level. In 2005 Gazprom's gas output made approximately 0.4 %. The RF Ministry of Economic Development many times drew attention to the fact that within the last years the company's investment strategy provided investing of only 30% of total investments in production, whereas the development of deposits located on Yamal Peninsula requires nearly $70 billion. The major funds are invested in the development of infrastructure projects, mainly export-oriented ones.

To my mind, the problem with gas production stagnation in Russia should be solved using complex measures.

It is necessary to introduce energy-saving technologies on entities (first of all on Gazprom itself that consumes 53 billion cubic metres) and calculation of gas consumed by population and the housing and utility complex.

Furthermore, it is necessary to create conditions so as to ramp up gas recovery of independent producers, whose potential is limited now by both the existing system of contracted access to the unified gas supply system and throughput capacity of this system as well as lack of the home market development strategy of Gazprom (out of 70% of funds invested in development of the transport infrastructure only 30% are spent on expansion of internal infrastructure capacities).

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Note that for those who can't remember the conversion (and being at home, that includes me) if you divide the tonnes by 50 you can roughly convert to barrels a day, i.e 250 million tonnes is around 5 mbd.