



Some thoughts on Georgia and other Russian actions

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When I first went to talk to someone about investing in stocks, it was carefully explained to me that I should not be concerned over daily fluctuations but rather should look at longer-term outcomes of events. So it has been with the recent price fluctuations with fuel, in that I haven't really been that concerned with the causes of daily, or even weekly ups and downs, since those moves were often in reaction to transient events, but have rather tried to pick out more long-term changes that will have more of a permanent impact. Thus it was just over [a month ago](#) that I wrote about a quote from the [CEO of Gazprom](#), which is perhaps (given recent events) worth repeating:

Gazprom forecasts that Russian gas prices will reach 500 U.S. dollars per 1,000 cubic meters by the end of 2008. "If oil prices exceed in the future 250 dollars a barrel, then gas prices will grow to 1,000 dollars per 1,000 cubic meters," Miller said.

I then went on to talk about the visit of the new Russian President to Turkmenistan, Azerbaijan and Kazakhstan to ensure that their supplies of natural gas and oil traveled to the west via Russian pipelines (with appropriate fees along the way) rather than being routed through alternate pipelines, where those fees and the concurrent flow-rate controls would not be available to Russia. If nothing else then, as Gail caught in [Open Thread #4](#) the benefits of investing in alternate pipelines, such as [Nabucco](#) for which Turkmenistan gas must first cross the Caspian and then pass through Azerbaijan and Georgia in the [Trans-Caspian Pipeline](#) have suddenly become a whole lot less attractive.

It must be born in mind that one does not have to own the initial fuel source itself, if instead one controls the only method by which that fuel can be supplied to the eager customer. This is a lesson that Gazprom has been teaching BP for over a year now. BP discovered, after developing the [Kovykta Project](#) that they could not [transport the resulting product](#).

TNK-BP has been locked in conflict with Gazprom over the development of its two major gas projects in Russia as the state seeks to tighten its grip over the energy sector. TNK-BP cannot sell gas from its vast east Siberian Kovykta field or its smaller Rospan unit in western Siberia without Gazprom because of the Russian gas giant's monopoly control over Russia's pipeline network.

The two companies have failed to agree on terms despite numerous offers from TNK-BP for Gazprom to take a substantial stake in both projects. Gazprom has said it is not interested in

Kovykta by itself. Russia raised the pressure over the issue last month by declaring TNK-BP to be in violation of its licence to develop Kovykta.

That was in March of last year, and by June 22 an agreement had been signed that brought Gazprom into the picture. However, if BP thought that this was the end of their troubles, they were sadly mistaken. Regulatory pressure and additional pressures from the government [have continued](#).

MOSCOW — In another sign of its deepening troubles in Russia, the British oil giant BP has reassigned engineers working at its TNK-BP joint venture to projects outside of Russia.

Most had already left, after police raids, labor inspections and visa complications. But the formal announcement represented another low for BP.

The company is fending off a corporate raid by its Russian partners that is backed by Russian regulatory authorities; part of the strategy has been to expel expatriate staff members from the joint venture.

It is becoming increasingly clear that the joint venture is not wanted in its present format, and that BP will have to renegotiate its dealings in Russia.

The point is made more bluntly by the denial by the Russian authorities of permission for the CEO of the company to [work in Russia](#).

PARIS — The British oil giant, BP, suffered another setback Thursday with its troubled Russian joint venture after a Moscow court disqualified the venture's chief executive from holding corporate office in Russia for two years.

The chief executive, Robert Dudley, was denied a Russian work visa last month and has been for some weeks in an undisclosed location outside of Russia from which he continues to operate as chief executive. On Thursday, a Russian labor court ruled that he could not work in Russia for two years.

The impact that this is likely to have on BP should not be disregarded.

The TNK-BP venture in the country's western Siberian oil basin had accounted for nearly all of BP's reserve growth in recent years, as supplies from Alaska and the North Sea dwindled. The loss of the joint venture would leave its long-term strategy, which had depended heavily on Russia, in tatters.

... . "BP's long-term strategy was to focus on Russia," Ms. Tiscareno said. "All of a sudden, it's like 'Time for Plan B.' "

There is thus, as Mark Twain said, more than one way to skin a cat. However, putting these two together I would first not hurry to dispute Alexei Miller's projection that oil prices may reach \$250 a barrel, and secondly I am going to dust off Michael Klare's [Blood and Oil](#), although skimming through the section on the Caspian suggests that all that thinking and the policies behind it have suddenly become history.

And on a short anecdotal note, I have been off for three weeks, and at one point in this vacation two cars left Augusta, ME. The first headed down to the airport in Portland, while the second, twenty minutes later left and meandered through Winthrop, up to Canaan in VT (over the covered bridge) for lunch, and then down into Montreal (300-odd miles away). There, after an hour through rush-hour traffic, we reached the airport and waited another hour and a half, before the passengers from the first car arrived. We carried them another 70 miles north, where we attended my niece's wedding. And, as another anecdote, the bridegroom arrived at the ceremony in a hand-paddled canoe (they had met doing work on coral reefs for some movie that involved Pirates and the Caribbean).

I hope your summer was as much fun as ours, sadly I cannot see that the future will be as promising.



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