

Does Gazprom Have A Master Pipeline Plan.

By Roman Kupchinsky

Focus News, Bulgaria ; 6/2/2006 ; Radio Free Europe

Russia's state-controlled monopoly Gazprom is the world's largest gas company, and the 10th-largest company in the world after its shares rose over 13 percent on the London market in mid-January. But its ambitions don't necessarily end there. Is Gazprom looking to assume control of the gas-transit market in Eastern and Central Europe?

After the disintegration of the Soviet Union in 1991, Viktor Chernomyrdin -- then head of Gazprom and on the way to being appointed prime minister -- devised a plan to maintain as a single unit, falling under Gazprom's purview, the gas- transportation infrastructure of Russia, Ukraine, and Belarus.

In formulating the plan, Chernomyrdin and his advisers were following the most fundamental principle in gas geopolitics -- the winners need not only access to large gas reserves, but also efficient systems for delivering that gas to market.

He who controls the pipelines, therefore, controls the buyer -- and, to some degree, the country where the gas originates.

It was a good plan -- but it failed. Ukraine and Belarus refused to give up what they considered the lucrative business of gas transit and insisted on nationalizing the pipelines on their territory. The main components of the former Soviet system were divided up between the three states.

But Gazprom, looking at the defeat as a short-term setback, set itself the far-reaching goal of buying up much of the gas- transit systems in the former Soviet Union as well as in Eastern and Central Europe. Its hope was to someday control the entire regional gas distribution system.

To date, Gazprom has had only mild success realizing its plan in the FSU. The pre-independence gas pipeline system in Belarus, for example, is still controlled by Beltransgas, the state-owned pipeline company. (This should not be confused with the post-Soviet Yamal-Europe pipeline, built and owned by Gazprom, which carries Russian gas through Belarus to Poland and on to Germany.) In Ukraine, the Soyuz pipeline and the two-thread Urengoy- Uzhgorod pipeline remain under Kyiv's control. Georgia -- still shivering from its abrupt shutoff of Russian gas after apparent pipeline sabotage last week -- likewise resists pressure from Moscow to cede control over its pipeline in exchange for cheaper gas.

Elsewhere, Gazprom is gaining ground. Armenia, trying to diversify its energy sources, is currently building a pipeline to Iran.

Gazprom, however, has insisted the diameter of the pipe be smaller than originally planned -- in order to prevent Armenian from shipping surplus Iranian gas to Georgia.

In Estonia, Gazprom owns a greater share of the national gas company, AS Eesti Gaas (30.64 percent) than the Estonian government (27 percent). Eesti Gaas, in turn, owns the country's gas transportation system.

The list of other Gazprom holdings in former Soviet republics includes Moldova's Gazsnabtranzit, where Gazprom owns 50 percent of the authorized capital; and Lithuania's Stella Vitae, of which it owns 30 percent. Gazprom also owns 25 percent of Latvia's Latvias Gaze.

And Gazprom, of course, has a significant presence even beyond the former Soviet Union.

The gas pipeline system running through Poland was built jointly with Russia, and Gazprom holds a 50-percent share. Gazprom also holds 46 percent of the Polish company EvRoPol Gaz.

In 2005, Gazprom arranged for Poland to buy 3.4 billion cubic meters of gas from RosUkrEnergo (RUE), the Swiss-based company now serving as an intermediary in Russia's controversial gas deal with Ukraine.

"Platts Commodity News" reported that in September 2005, RUE became the main supplier of Russian gas to Poland. Gazprom also holds a 35-percent stake in Poland's Gas Trading consortium, and nearly half of EuRoPol Gaz joint-stock company.

In the early spring of 1991, Gazprom attempted to buy a 25-percent stake in Verbundnetz Gas AG, which operated the entire gas distribution system in the former East Germany.

But despite help from the German chemical company BASF, Gazprom was not allowed to take part in the tender and the stake was bought by Germany's Ruhrgas.

Gazprom's bid was primarily based on a wish to lower its dependency on Ruhrgas. Ruhrgas had been dictating the prices it paid for Russian gas, a practice that angered Chernomyrdin. He felt that Russia, as the seller, was in a position to name the price it wanted to charge.

But in the ensuing years, Gazprom was able to gain a considerable presence in the German gas market through its partnership and joint venture agreements with the German gas company Wintershall. Today it has three major joint ventures with Wintershall, Wingas WIEH and WIEE, as well as agreements with Ruhrgas, Verbundnetz Gas and Siemens AG.

Gazprom holds a 50-percent stake in Hungary's Panruysgaz. And in 2001, it set its sights on the country's chemical company BorsodChem.

This was not only for its chemicals, but also because it owned a minority stake in TVK, Hungary's second-largest chemical firm, which also controlled a large part of the country's pipelines.

A Europol report from September 2001 reported that 24.8 percent of BorsodChem's shares were owned by a principal Hungarian bank that was "simultaneously acting on behalf" of Sibur, the Russian petrochemical firm controlled by Gazprom, in acquiring more shares.

The report went on to say a further 8 percent of BorodsChem was owned by MDM, a Russian bank. A further 5 percent was owned by unidentified financial investors, two of whom were linked to organized crime groups in St. Petersburg, and another of whom worked in collusion with MDM.

Europol also noted that Austrian investment bank Vienna Capital Partners "colluded with Sibur in coordinating share bids in BorodsChem."

In the end, Gazprom did not succeed in gaining a share in Hungary's pipeline system. But Gazprom has used the same tactics elsewhere,

to better effect.

Gazprom's activities in Slovakia are significant since most gas which transits through Ukraine bound for Europe first enters Slovakia and is then routed further west.

In April 1997, a series of agreements were signed between Chernomyrdin and Slovak Premier Vladimir Meciar that gave Slovakia's national gas company SPP a discount of \$5 per thousand cubic meters.

(Slovakia used 6 billion cubic meters of gas in 1997.) In return, a Gazprom-Slovak joint venture was created to transport Russian gas to the EU. The exact terms of the joint venture were never published.

The 1997 agreements are to expire in 2008.

In July 2002 the European Commission approved the purchase of a 49-percent stake in SPP by Gazprom, Ruhrgas and Gaz de France.

The deal was worth \$2.7 billion and was financed by Ruhrgas and Gaz de France. Gazprom paid a third of this sum in installments. The SPP pipeline system transports about 70 percent of all gas supplied from Russia via Ukraine to Europe. Gazprom also holds a 50-percent stake in Slovakia's Slovrusgaz.

And the investments don't end there. Gazprom has shareholdings in Italy's Volta (39 percent), the British-Belgian company Interconnector (10 percent), France's Fragaz (50 percent), and similar companies in Austria, Serbia, Greece, Finland, Bulgaria, and Turkey. In October 2005, the amount Gazprom had spent on those investments was estimated at \$2.6 billion.

The "International Herald Tribune" cited Emmanuel Bergasse, administrator for Central and Eastern Europe and the International Energy Agency, as saying "Gazprom has substantial market power from being the supplier of gas down to the customer. It is the chain that counts."

He added: "Gazprom's stated aim is to extend its dominant position, with obvious consequences for European energy diversification."
