

---

# Gazprom on a Shopping Spree for Gas

By Vladimir Socor

Eurasia Daily Monitor- 14/7/2008

---

Gazprom has embarked on a grand shopping tour abroad for gas. Although Russia is the world's largest gas producer and exporter, the Kremlin seeks to maximize gas imports into Russia from other producer countries. This effort is accelerating under the recently inaugurated President Dmitry Medvedev, who had helped initiate this strategy as Gazprom chairman alongside then-president Vladimir Putin, now prime minister.

This shopping spree confirms implicitly that Russian production will not suffice to meet Gazprom's multiple supply commitments in the years ahead. Gazprom's strategy, however, is even more ambitious than compensating for internal output shortfalls through imports. The strategy aims to gobble up gas production and exports from Middle Eastern and African countries, as well as Caspian ones, and sell that gas in Europe through Gazprom.

Through this strategy the Kremlin seeks to accelerate the formation of a Russia-led cartel of gas exporters. The strategy also serves to create a network of bilateral arrangements between Russia and individual gas-exporting countries, if the cartel's formation proves elusive.

On July 12 and 13 Gazprom president Alexei Miller held talks in Tehran with President Mahmud Ahmadinejad, Oil Minister Gholam Hosein Nozari, and National Iranian Oil Company (NIOC) chairman Seyfollah Jashnsaz. Gazprom and NIOC signed a memorandum of understanding envisaging the creation of joint enterprises for exploration and development of gas and oil deposits in Iran, construction of processing installations, and cooperation in transportation systems. According to Russian and Iranian reports, these intentions include Gazprom's participation in developing certain phases of Iran's South Pars fields (the world's largest for gas condensate), involvement in the proposed Iran-Pakistan-India pipeline project, and gas liquefaction for export to European countries. A joint working group is being established to implement the terms of the MOU (Interfax, RIA-Novosti, IRNA, July 12, 13).

Although nonbinding and not stipulating a time-frame for implementation, the agreement reflects Moscow's declared goal to compete against the West for access to Iran's gas reserves, which are estimated to be second only to Russia's worldwide. Gazprom's move flies in the face of the U.S. policy to block the development of Iranian gas and depress Iranian oil production, regardless of the cost of such a policy to Western consumer countries. Gazprom's offer reflects Russia's policy to enlist Iran in an anti-Western group of energy producers. Moscow can only succeed if Iran lacks alternative options, as is now the case under the decade-old U.S. sanctions.

Russia's strategic interest in Iran implicitly underscores the futility of hopes that Moscow would cooperate with Washington in imposing meaningful sanctions on Iran. While West European companies are moving out of Iran or suspending agreements for fear of U.S. sanctions (which penalize investments of more than \$20 million a year in Iran's oil and gas sector), Gazprom is enlarging its already existing foothold.

On July 9 Miller held talks in Libya with the country's leader Muammar al-Ghadhafi and Libya's National Oil Corporation (LNOC) head Muhammad Ghanim. The

Russian side offered to buy up in coming years, at competitive prices, the entire output of Libya's oil, gas, and liquefied natural gas designated for export. Libya would then be allowed to 'coordinate' with Gazprom in marketing those volumes in Europe, that is, would receive a cut from Gazprom's super-profits. Miller and the LNOC management agreed to start talks about the purchase of oil and gas volumes currently available from Libya (Interfax, RossBusinessConsulting, July 9, 10).

Putin had launched this initiative while visiting Libya in April 2008, his final month as President of Russia. Libya is considering the proposal but has not made any commitment yet. Neither has Algeria, to which Russia made a similar offer regarding natural gas in 2007. That discussion continues, and Gazprom has inaugurated its first African representation in June of this year in Algiers. Gazprom, moreover, seeks to buy exploration licenses in Nigeria and proposes to build a pipeline from there to Algeria (Bloomberg, July 11).

Algeria currently supplies more than 10 percent of the European Union's gas imports and is slated to increase that share. Russia, however, seeks to draw Algeria into the proposed cartel of gas-exporting countries, predicated on 'joint' marketing of gas in Europe. Gazprom aims to establish a foothold upstream in Africa and from there to expand into French, Italian, and Spanish markets, targeting those countries' distribution and retail networks.

These raids into Europe's traditional oil and gas provinces followed in quick sequence after Medvedev's and Miller's visits in June and early July to Azerbaijan and Turkmenistan, which are Europe's potential alternatives to Russian gas. In Baku, Medvedev and Miller proposed to buy up the entire gas volume available for export from Azerbaijan, effective next year and continuing on a long-term basis. They tempted Azerbaijan by offering to pay European netback prices, that is, the sale price minus transportation costs. This is also Russia's standing offer to Turkmenistan, which currently receives \$180 per 1,000 cubic meters of gas and stands to receive \$280 to \$300 in 2009 for the gas it sells to Gazprom. The current price in Europe averages \$410 and can rise to \$500 per 1,000 cubic meters by the end of this year, according to Gazprom's forecasts (Interfax, July 4,7).

Reporting to Prime Minister Putin on July 8, in a working meeting partly shown on national television, Miller averred that the offers to Azerbaijan and Turkmenistan are meant to prevent the implementation of gas supply projects that would bypass Russia, such as the Trans-Caspian and Nabucco pipeline projects. By the same token he mentioned the intent to buy gas from Iran in the future, with a view to reselling it in Europe (Russia TV, Interfax, July 8; RIA-Novosti, July 10).

The European Union and United States are groping ineffectively for a response to Gazprom's strategy of expansion. Russia's envoy to the EU, Vladimir Chizhov, visiting the annual exhibition of Russian weapons Expo Arms 2008 in Nizhny-Tagil, enthused, 'The EU countries no longer fear our tanks; they fear Gazprom' (Interfax, July 11). If so, that fear has yet to induce serious remedial actions.

---