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Gazprom: today Russia, tomorrow the World

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Gazprom's latest moves on international markets have shown that the Russian gas monopoly is strengthening its positions and becoming integrated into the global economy.

Gazprom CEO Alexei Miller and Gaz de France President Jean-Francois Cirelli have recently signed an agreement to extend contracts for Russian gas supplies until 2030.

Under the contracts, Gazprom will sell up to 1.5 billion cubic meters of gas to French end consumers as of next year. In 2005, Russia supplied 13.1 billion cubic meters of gas to France. GdF's portfolio totals about 67 billion cubic meters of gas.

Italy's Eni and Austria's OMV also agreed to make similar concessions as part of agreements to extend their long-term contracts. Eni will enable Gazprom to sell 2 billion cubic meters of gas on the Italian market, and to raise this amount to 3 billion cubic meters in 2010. OMV granted the Russian energy giant the right to sell 1.7 billion cubic meters in Austria through GWH and Centrex, which are affiliated to Gazprom Export and Gazprombank.

German E.ON-Ruhrgas refused to give the Russian gas company access to its sector of the German market. However, Gazprom has agreed to swap assets with German energy companies. As a result, Gazprom will exchange stakes in the Yuzhno-Russkoye deposit for access to European gas distribution networks. Agreement has also been reached to jointly build the Nord Stream pipeline under the Baltic Sea.

Dutch Gasunie has also offered Gazprom a stake in the BBL gas pipeline, which connects Belgium to Great Britain, and promised to give the Russian company access to the Dutch market in exchange for 9% in Nord Stream.

All this clearly shows that a strategic assets swap, which Gazprom talked about last year, is being put into practice. Foreigners have secured long-term gas supplies and stakes in Russian gas fields, while Gazprom will get access to European gas distribution networks.

Global hydrocarbon reserves are limited and mostly located in problem-ridden regions, hence the interest in Russian gas assets, which seem more secure than Venezuelan, Nigerian or Iraqi ones. Foreign investors' confidence in Russian companies, such as Gazprom, has grown significantly in the past few years. Early this century, Gazprom's capitalization was $45-$50 billion, and today it makes $273 billion. The global stock market has appreciated the Russian gas monopoly's play in the global arena.

The agreement with Gaz de France actually means that Gazprom has made an advance payment to the French state-owned concern in the hope that it will buy some of its assets. During the forthcoming merger of GdF and Suez the two companies will have to cede control of some of their assets in Belgium and France. A decision has been made to sell stakes in Belgian Distrigaz, including its French assets, and in power engineering company SPE, a joint venture of GdF and British Centrica, as well as Cofathec Coriance, GdF's thermal network in France.

"We will be open to outside proposals," said Gaz de France President Jean-Francois Cirelli. According to the mass media, during their negotiations Gazprom and GdF discussed every asset that could be sold in detail.

Gazprom's access to end consumers in France and other European countries shows that Moscow is determined to build a balanced scheme of gas cooperation with Europe that would ensure the energy security of both parties. By issuing long-term guarantees of stable gas deliveries Gazprom is seeking access to distribution networks for stable gas sales. Gazprom CEO Alexei Miller said the agreement with Gaz de France was aimed at improving France's energy security. In turn, the head of the French monopoly said: "We consider Gazprom the best of all companies we would like to see on our market."

In the outgoing year consolidations, mergers and takeovers became a characteristic feature of energy market growth. Most analysts in the West describe the merger of Norwegian companies Statoil and Norsk Hydro, and the forthcoming merger of Gaz de France and Suez as counterbalance to Gazprom, which has been strengthening its positions in Europe. However, the Russian company is also becoming integrated into the European gas market. Core companies have set a trend of swapping assets and giving one another access to lucrative sectors or deposits of natural resources.

Gazprom's huge resources make it possible to suggest that it will be stepping up its acquisition of European gas transportation, storage and distribution assets. One can agree with the Russian gas monopoly's head, who said that the trend was aimed at strengthening European energy security, which is impossible without a balanced system that would take into account the interests of both consumers and producers.

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