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# Gazprom to Double Azeri Imports

By The Moscow Times

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Presidents Medvedev and Aliyev sightseeing with their wives Friday in Baku. **Mikhail Klimentyev**

BAKU, Azerbaijan — Gazprom said Friday that it would double imports of Azeri gas next year, a move analysts said had no direct economic benefit but is seen by Moscow as key to maintaining its grip on Europe's gas market.

The agreement was signed after President Dmitry Medvedev met with his Azeri counterpart, Ilham Aliyev, in Baku.

On Friday in Baku, state-owned gas export monopoly Gazprom signed a deal with Azerbaijan's state energy firm, Socar, to buy 2 billion cubic meters of gas in 2011 and even more from 2012. This year, it is buying 1 bcm.

"It is much more expensive for Russia to buy gas from Azerbaijan than to produce it domestically, but the more it buys from Azerbaijan, the less others can buy," said Pavel Sorokin, an oil and gas analyst at Alfa Bank.

Russia re-exports the gas it buys from Azerbaijan. With flagging demand in Europe — Gazprom's biggest export market — more Azeri gas means that domestic production will fall proportionately and Gazprom will lose out on profits, analysts said.

"Export volumes to Europe are going to stay flat, so adding more Azeri gas means Gazprom is reducing the share of Russian gas in its export portfolio," said Mikhail Korchemkin, head of East European Gas Analysis.

Korchemkin said exporting 2 bcm of Russian gas gives Gazprom about $200 million in profit and brings the state $160 million in customs duties as European consumers pay, on average, 70 percent more for Russian gas than domestic customers do.

"Russia is purposefully missing out on $360 million a year by paying market prices for Azeri gas. The idea is to prevent Europe from buying the gas so it cannot diversify its supplies away from Russia," Korchemkin said.

The European Union has plans to build a $10 billion gas pipeline, Nabucco, to transport up to 31 bcm of gas a year from the Caspian region to an Austrian gas hub via Bulgaria, Romania, Turkey and Hungary — in hopes of reducing Europe's reliance on Russian gas.

But Nabucco shareholders have had a hard time clinching supply contracts as a fourth round of United Nations sanctions have axed the possibility of importing Iranian gas.

Russia's moves to lock in more Azeri supplies could add to these problems.

Earlier on Friday, Gazprom chief Alexei Miller reiterated Russia's willingness to secure much higher gas volumes from Azerbaijan as feedstock for its own pipeline project, South Stream, for gas transit under the Black Sea to Europe.

"Our contract has no upper limit on the volume of gas supplies from Azerbaijan," said Miller, adding that this was the second time the country has agreed to double the original base contract for 500 million cubic meters, agreed upon in 2009.

"This [contract] means that Azerbaijan is giving priority to Gazprom for the expansion of natural gas exports to Russia," Miller said, citing Russia's territorial proximity and existing gas pipelines.

Analysts say Russia's recent energy dealings with Central Asia's largest gas producer, Turkmenistan, show that giving Russia preference as a buyer could be risky for Azerbaijan.

"As soon as a negative investment decision is given on Nabucco, as soon as there is no more threat, Gazprom will stop buying Azeri gas. This is what they did with Turkmenistan," Korchemkin said.

Turkmenistan produces about 75 bcm of gas a year, and before the economic downturn prompted a steep drop in global energy demand, Russia was buying the bulk of its gas output, or 50 bcm.

A pricing dispute between the countries then halted deliveries for almost nine months in 2009. Russia agreed to resume Turkmen gas imports, albeit at much lower volumes, late last

year.

Some industry experts say Nabucco cannot fill its total capacity without supplies from Iran, but Nabucco says sources from Turkmenistan, Iraq and Azerbaijan are plentiful. It has yet to sign a binding supply agreement

Russia and European Union-backed pipeline projects are now competing to secure gas contracts from Azerbaijan's giant Shakh Deniz II field, set to come on stream in 2016.

The Shakh Deniz gas deposit, co-led by BP and Statoil, has total estimated reserves of about 1.2 trillion cubic meters and should produce 7.6 bcm this year, up from 6.2 bcm in 2009.

Miller reiterated Gazprom's interest in buying some of BP's Azeri assets if an offer were made.

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