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Gazprom Asks China to Prepay

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Gazprom is demanding an advance payment of up to $40 billion from its future Chinese customers in the latest twist to negotiations over long-term gas supply contracts estimated to be worth $700 billion.

Talks between Gazprom and China's National Petroleum Corporation — CNPC — have been underway for five years and experienced a major setback in June when, despite intense political pressure and a state visit by Chinese President Hu Jintao, no deal was signed.

A requirement for an advance payment by the Chinese, similar to that successfully obtained by Rosneft and Transneft before the construction of an extension of the East Siberia-Pacific Ocean pipeline to China, is likely to further delay a deal, which has been held up by differences over pricing structures.

Citing an unidentified source within CNPC, Interfax reported Thursday that Gazprom was seeking $25 billion as an advanced payment. Vedomosti cited a source close to the Russian government Friday who put the figure at closer to $40 billion.

"Gazprom wants an advance payment for gas as soon as a commercial contract has been signed and before the gas pipeline has been built. ... [CNPC] itself does not have that much cash, and it would have to borrow it from a bank and pay the corresponding interest," Interfax quoted a source as saying.

The source also said there was now a "$65 per 1,000 cubic meters" difference on price between the two sides. The $65 mark, he added, was reached prior to Jintao's visit in June — it had previously stood at about $100.

In a research note, VTB Capital said Russian insistence on an advance payment would be "potentially another stumbling block in the dispute over the natural gas export price formula that is blocking the long-awaited Gazprom-China deal."

The next round of talks between Gazprom and CNPC will take place in late July in China.

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