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Gazprom Vows to Fully Comply in EU Raids

By Roland Oliphant

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Gazprom promised to "fully comply" with European Commission antitrust investigators amid a series of raids of the company's European offices in several EU countries on Wednesday.

While the raids are ostensibly related to syndicate behavior, industry sources say they are really part of a strategy to curb Europe's reliance on Russian gas.

"The commission has been much concerned about Gazprom for quite a while," an unidentified European Commission official told Reuters on Wednesday.
Russia supplies about 25 percent of Europe's gas, and Gazprom has set its sights on raising that to 30 percent.

"Within the limits of legal requirements, Gazprom will provide all possible support in

conducting the inspections," the company said in a statement Wednesday afternoon. "Gazprom has already instructed the managers of its affiliates on the necessity to cooperate and comply with legitimate requests of the inspecting authorities."
European Commission inspectors who had arrived unannounced at Gazprom Germania's Berlin office on Tuesday morning were still going through documents and computers late Wednesday.

Gazprom's offices in the Czech Republic and Germany were among several Central European energy firms raided by EU officials Tuesday as part of an investigation into how the companies are divvying up markets.

The commission said its inspectors swooped down on companies in 10 member states — but did not provide details.
By Wednesday evening, a slew of firms based in Eastern Central Europe acknowledged to being targeted, including German utility RWE's offices in Essen and the Czech Republic, E.On's Ruhrgas, Poland's Polskie Gornictwo Naftowe I Gazownictwo, Slovakia's SPP, Austria's OMV, Lithuania's natural gas supplier AB Lietuvos, and Estonia's Eesti Gaas.

The EU commission said in a statement released Wednesday that it was investigating allegations that the companies had colluded to divide markets, hinder access to distribution networks, stymie efforts to widen supply sources and indulged in overcharging.

The commission said its inspectors are looking into restriction of competition in the area of upstream supply. But few details have emerged of the specific infractions believed to have been committed.

The inspection was still ongoing when The Moscow Times reached Gazprom Germania, a 100 percent subsidiary of Gazprom Export, at nearly 5 p.m. German time Wednesday.

"They are looking at documents and computers, and we are cooperating," said Burkhard Woelki, head of corporate communication at the Russian gas giant's German subsidiary. "But at the same time we are continuing to work."

"There is no explaining to be done," Woelki said, when a Moscow Times reporter asked whether the inspectors had explained the nature of the investigation or what they were looking for.

"They show you a paper — exactly the same thing as if the police or a magistrate issues a warrant — and you are obliged to cooperate," he said by telephone from the company's Berlin headquarters.

The inspectors were not backed by police and used official documents to enter the building when they arrived unannounced early Tuesday morning, Woelki said.

Meanwhile on Wednesday, the commission began inspections of several Bulgarian companies: state-owned Bulgargz and Bulgartransgaz, as well as Overgas — a private company 50 percent controlled by Gazprom. Each said antitrust officials visited their Sofia offices Wednesday, Reuters reported.

Bulgarian Energy Minister Traicho Traikov, one of the only government figures to comment on the situation, told reporters in Sofia on Wednesday that the investigation is looking at companies with long-term natural gas supply contracts with Gazprom and was being used as "a way to circumvent confidentiality clauses" that prevent regulators from getting data on capacity, Bloomberg reported.

That confirmed suspicions aired earlier by executives at raided companies that they were being targeted because of their links to Russia.

"Companies that get Russian gas" are being investigated, OMV chief Gerhard Roiss said at a news conference Wednesday, Bloomberg reported.

Analysts at Citibank said in a note that the inspections could be focused on "destination clauses" in upstream contracts, the Platts energy industry news service reported.

Gazprom defended its record in Europe, saying its contracts were based on "legal norms" and that it would continue to "fulfill contractual obligations" while the probe was ongoing.

Woelki in Berlin echoed that. "We have absolutely nothing to hide," he said.

Mikhail Korchemkin of East European Gas Analysis said the only surprise was that Gazprom and its customers were just now being subjected to antitrust inspections — which major European players like E.On and Gaz de France have already endured.

Putting the delay down to "political sensitivities" concerning European relations with Russia, he said Gazprom could face serious financial consequences if it is found to have violated European antitrust law.

Gazprom has complained in the past about what it called excessively stringent restrictions the EU placed on its plans to buy a stake in Central European Gas Hub in Austria.

"The gas market is in the process of liberalizing, and its difficult for the 'old boys' — including people like E.On and Gazprom — to adjust quickly," Korchemkin said.

Europe is trying to make it easier for companies without distribution networks to gain access to the market by forcing companies to unbundle their supply and infrastructure operations.

Last month, Gazprom was reported to have requested consultations with the Lithuanian government over the Baltic state's plans for separating the delivery network from the supply company.

Valery Golubev, deputy chairman of Gazprom's board, wrote to the Lithuanian prime minister that a proposed law would lead to "implementation of the [EU] directive in such a way that it would have the most negative effect on our investments."

Gazprom would not be the first company to fall foul of the liberalization moves. RWE was compelled to sell its gas-transmission network and E.On to give up its German power grid.

In 2009, E.On and Gas de France were fined 553 million euros each for carving up gas markets between them.

"The commission fines people for violations, and they are not small fines. The fine for a short-term violation is 10 percent of annual turnover in the country where the violation took place," he explained.

"In Germany, that would amount to about $900 million," he said. More serious violations can push the fine up to 30 percent of national turnover, which would cost Gazprom $2.7 billion in Germany, he added.

The raids will have little if any impact on Gazprom's core business of producing and selling gas, said Maria Yegikyan, an analyst at Alfa Bank, though the probe would inevitably damage sentiment toward the companies involved.

Calls to Gazprom's Moscow press office went unanswered Wednesday evening.

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