

Russia in WTO: Gas Dispute In Europe Could Find New Venue

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While Russia's expected accession to the World Trade Organization in 2012 could be used in a brewing struggle between Gazprom and the European Union, the move is unlikely to have a big impact on the country's domestic gas industry or export revenues.

"Broadly speaking everything will stay as it was," said Artyom Kochin, an oil and gas analyst at UniCredit Securities.

Gazprom increased production by 12 billion cubic meters in 2012 to 520 bcm, and profits from energy exports have grown to about 40 percent of federal revenue. WTO entry will do little to upset these trends.

But membership of the international trade body could provide state gas export monopoly Gazprom with another weapon as it battles the European Union's third energy packet. The EU measures that could begin to be implemented next year seek to separate production

from supply and break up Gazprom's control of continental pipelines.

Asked about the EU's plans, Russia's chief WTO negotiator Maxim Medvedkov said last month that there was a "very big question over whether they are compatible with the obligations of our partners in the WTO."

EU diplomats have stated repeatedly that the third energy package does not contravene WTO rules and that the issue should be decided in bilateral talks.

Whatever the political consequences for Gazprom, Russia's export tariffs and internal gas prices are unlikely to be seriously affected. The country will retain its ability to set pricing formulas for the "indefinite future," Medvedkov said. Long-term gas contracts with European customers are linked to the oil price.

While WTO entry conditions permit the Kremlin to maintain the regulation of domestic gas prices for households and noncommercial users, they are obliged to introduce market prices for gas to industrial enterprises.

This will occur gradually, said Alexander Kirevnin, an oil and gas analyst at VTB Capital, as the state will not allow Gazprom to raise domestic gas prices by more than 15 percent a year.

He added that VTB Capital had not changed its valuation models for either Gazprom or independent producer Novatek following the news of likely WTO accession.

A Gazprom spokesman declined to comment. "At the present moment, we won't comment on this and will not even look into it," he told The Moscow Times. Novatek did not respond to repeated telephone and e-mail requests for comment.

But gas producers may be influenced from another quarter. The Russia director of a U.S. oil and gas services company whose clients include Gazprom told The Moscow Times that WTO accession was likely to level the playing field as far as service companies were concerned.

"It's a good thing, whether they know it or not, for Russian [gas] producers," said the executive who requested anonymity to speak freely. "As an industry, they will have to finally become more efficient, productive and usable."

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