

Gazprom Strikes Back at EU Panel

By [Howard Amos](#)

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A Greenpeace activist, dressed as a polar bear, sitting inside a police car after being detained outside Gazprom's headquarters on Wednesday. **Misha Japaridze**

Gazprom hit back at the European Commission on Wednesday, a day after Europe's executive body formally opened antitrust proceedings against the gas giant, with a reminder that picking a fight with it means picking a fight with Russia.

The beginning of a new phase in the long-running case against Gazprom in Central and Eastern Europe is the latest in a string of high-profile shocks for Russia's biggest company, which is facing increasing domestic competition and growing threats to the profitability of its fixed-pipeline exports.

Even Greenpeace joined the attack on Gazprom as 10 activists in polar bear costumes who protested drilling in the Arctic were detained by police outside the company's Moscow office Wednesday.

"Gazprom is an institution set up outside the jurisdiction of the EC," Gazprom warned in an

e-mailed statement. "It is a company that under Russian law has public functions and the status of a strategic organization, controlled by the state."

In 2009, Gazprom, which is majority-owned by the government, shut off supplies to Ukraine during a pricing dispute, and it is currently entangled in several bitter legal wrangles with European customers over similar issues.

The Kremlin also criticized the commission's announcement.

"It's not clear why this suddenly has become a subject for investigation," said President Vladimir Putin's spokesman, Dmitry Peskov, Bloomberg reported.

"Why do they claim there's a violation of the security of supplies?" Peskov said. "Gazprom was, is and will be a reliable supplier of natural gas to its customers."

Gazprom's share price dropped 1.6 percent during Wednesday trading on the MICEX index to close at 157.44 rubles (\$4.87). The MICEX was down 1 percent to 1,436.64 in the same period.

While the European Commission said in a statement published on its website late Tuesday that the investigation would be a "priority," no final decision is expected for about a year, and Gazprom could try to negotiate a settlement.

Under European law, companies that obstruct competition can be fined up to 10 percent of their annual revenue, which in Gazprom's case would be likely to up to \$5 billion, according to some estimates.

But of much greater significance is the implied threat to the whole export contract system by which Russia delivers natural gas to Europe.

"[The commission] is going after the oil linkage in Central and Eastern Europe," said a banker in Moscow who requested anonymity because he was not authorized to speak to the media.

Like companies from countries including Norway, Algeria and Libya, Gazprom sells gas abroad using formulas tied to the price of oil. But while oil prices have remained high, the cost of gas on spot markets has dropped steadily in recent years.

While Gazprom steadfastly refuses to decouple the gas price from the price of oil, it has renegotiated some long-term contracts with European energy companies and allowed retroactive payments.

Europe relies on Russia for about a quarter of its gas consumption. Eastern and Central Europe not counting Ukraine, where EU authorities are pursuing their investigation, consume 25 percent of Gazprom's exports to Europe.

Senior government officials in some of the affected countries were quick to use the commission's decision as a reason to boost their struggles to overhaul their contracts with Gazprom.

"This decision of the European Commission confirms our stance," Polish Treasury Minister

Mikolaj Budzanowski said Wednesday, Reuters reported.

Poland is dependent on Russia for 50 percent of its gas, and PGNiG, the country's state-controlled gas monopoly, is embroiled in a long-running legal fight with Gazprom over prices.

Russia's biggest company has also been hit by the ongoing macroeconomic woes in Europe. As the continent wobbles on the brink of recession, gas export volumes have dropped 10 percent year on year.

"European demand is crap at the moment, and economically they look like they're about to slide off into the sea," the Moscow banker said.

Gazprom is facing pressure on a number of fronts. Last week, the company said it had shelved development of the enormous Shtokman gas field in the Arctic, an acknowledgment that the project could not be profitable while shale gas technology in the U.S. and LNG availability drive down global prices.

Environmentalists have been targeting the company in recent months because of the company's ice-resistant oil platform in Arctic waters, Prirazlomnaya, which will make Gazprom the first company to commercially produce oil from offshore deposits in the Arctic when it comes online.

Activists, including Greenpeace executive director Kumi Naidoo, spent five days in August trying to disrupt operations at Prirazlomnaya in the group's most dramatic stunt in Russia to date.

Economic challenges at home are also becoming more serious as domestic producers like Novatek aim to win contracts from their powerful rival. Experts point out that the bulk of Gazprom's five-year contracts with Russian gas consumers are due for renewal later this year, prompting speculation about how many of its customers might jump ship.

Gazprom shares on the MICEX have fallen more than 9 percent in 2012.

The last quarter has been a "kind of turning point" for Gazprom, said Yekaterina Rodina, an oil and gas analyst at VTB Capital.

Gazprom is due to announce its second-quarter financial results Thursday, which some expect will further depress the stock, compounding Wednesday's declines.

"These quarterly results might be the first time that Gazprom demonstrates a notable deterioration in financial performance on the back of growing international oil prices but flat domestic gas tariffs," VTB analysts said in a note to investors earlier this week.

The note continued: "These 'first-ever' negative events might actually turn out to be a trend, yet to be acknowledged by the investment community."

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