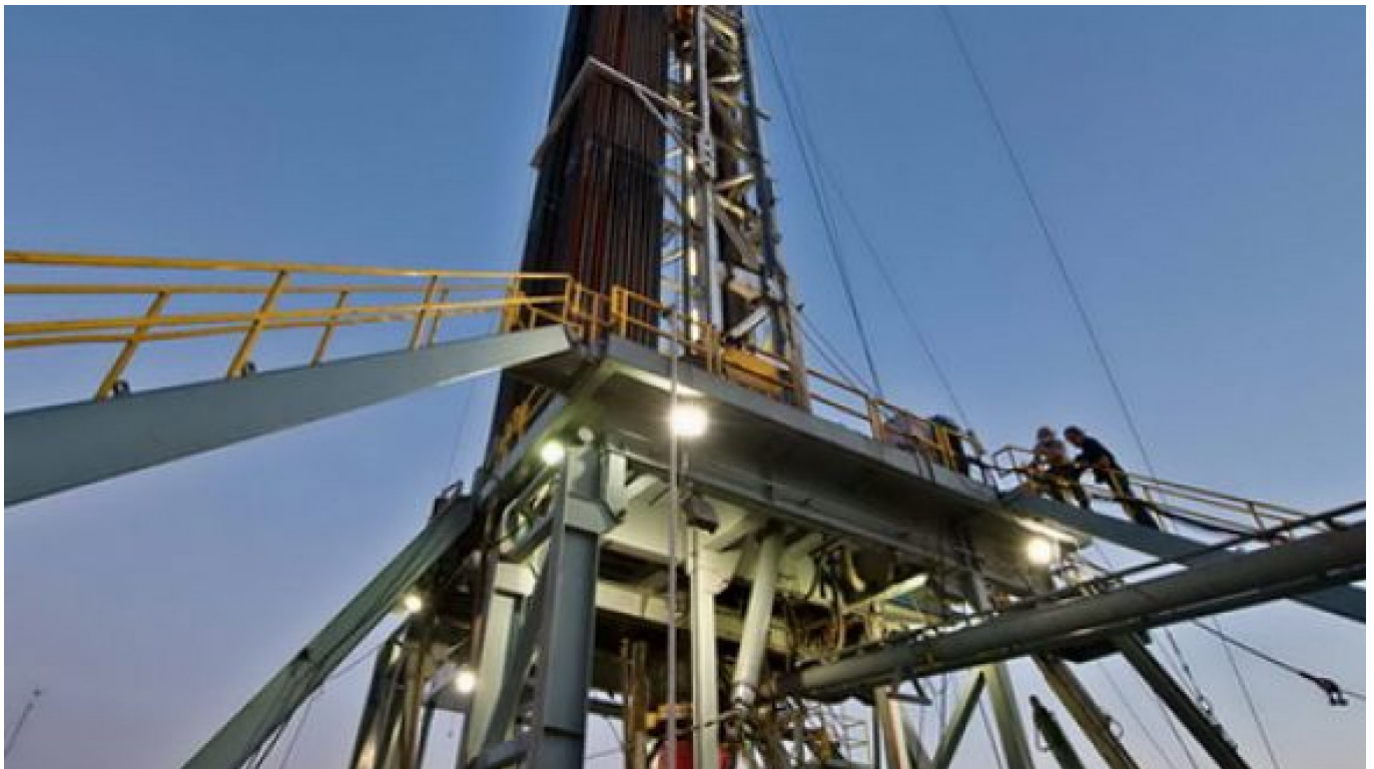


Gazprom Welcomes U.S. Fracking, but Endgame Unclear

By [The Moscow Times](#)

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PITTSBURGH — The Kremlin is watching, European nations are rebelling, and some suspect Moscow is secretly bankrolling a campaign to derail the West's strategic plans.

It's not some Cold War movie; it's about the U.S. boom in natural gas drilling, and the political implications are enormous.

Like falling dominoes, the drilling process called hydraulic fracturing, or fracking, is shaking up world energy markets from Washington to Moscow to Beijing. Some predict what was once unthinkable: that the U.S. won't need to import natural gas in the near future, and that Russia could be the big loser.

"This is where everything is being turned on its head," said Fiona Hill, an expert on Russia

at the Brookings Institution, a think tank in Washington. "Their days of dominating the European gas markets are gone."

Any nations that trade in energy could potentially gain or lose.

"The relative fortunes of the United States, Russia, and China — and their ability to exert influence in the world — are tied in no small measure to global gas developments," Harvard University's Kennedy School of Government concluded in a report this summer.

The story began to unfold a few years ago, as advances in drilling opened up vast reserves of gas buried in deep shale rock, such as the Marcellus formation in Pennsylvania and the Barnett in Texas.

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Russia had been exporting vast quantities to Europe and other countries for about \$10 per unit, but the current price in the U.S. is now about \$3 for the same quantity. That kind of math got the attention of energy companies, and politicians, around the world.

Some European governments began to envision a future with less Russian natural gas.

In 2009, Russia had cut off gas shipments via Ukraine for nearly two weeks amid a price and payment dispute, and more than 15 European countries were sent scrambling to find alternative sources of energy.

The financial stakes are huge. State-controlled Gazprom had \$44 billion in profits last year. It is the world's largest producer of natural gas and exports much of it to other countries.

But last month Gazprom halted plans to develop a new arctic gas field, saying it couldn't justify the investment now, and its most recent financial report showed profits had dropped by almost 25 percent.

The U.S. presidential campaigns have already addressed the strategic potential.

A campaign position paper for Republican Mitt Romney said he "will pursue policies that work to decrease the reliance of European nations on Russian sources of energy."

In early September, President Barack Obama said the U.S. could "develop a hundred-year supply of natural gas that's right beneath our feet," which would "cut our oil imports in half by 2020 and support more than 600,000 new jobs in natural gas alone."

Poland's Environment Ministry wrote in a statement to The Associated Press that "an increased production of natural gas from shale formations in Europe will limit the import via pipelines from Algeria and Russia."

The issue has reached the highest levels of the Kremlin, too.

Hill, of the Brookings think tank, heard President Vladimir Putin speak in late 2011 at a Moscow gathering of academics and media. She said in a blog post that "the only time I

thought that he became truly engaged was when he wanted to explain to us how dangerous fracking was."

But one top Gazprom executive said shale gas will actually help the country in the long run. Sergei Komlev, the head of export contracts and pricing, acknowledged the recent disruptions but predicted that the U.S. fuels wouldn't make their way to Europe on any important scale.

"Although we heard that the motive of these activities was to decrease dependence of certain countries on Gazprom gas, the end results of these efforts will be utterly favorable to us," Komlev wrote in an e-mail to the AP. "The reason for remaining calm is that we do not expect the currently abnormally low prices in the U.S. to last for long."

In other words, if the marketplace for natural gas expands, Russia will have even more potential customers because it has tremendous reserves.

Komlev even thanked the U.S. for taking the role of "shale gas global lobbyist" and said Gazprom believes natural gas is more environmentally friendly than other fossil fuels.

"Gazprom group generally views shale gas as a great gift to the industry," he wrote. When natural gas prices rise, "it will make U.S. plans to become a major gas exporter questionable."

Whether exports happen involves a dizzying mix of math, politics and marketplaces, along with the fact that U.S. natural gas companies — and their shareholders — want prices to rise, too.

James Diemer, an executive vice president for Pace Global, an international consulting company based in Virginia, believes that shale gas costs more to extract than the current market price. Pace, which recently released a report called "Shale Gas: The Numbers vs. The Hype," has been studying shale gas for Gazprom and other clients.

"The capital will stop flowing" to U.S. shale gas, and the price will go up, Diemer predicted. He would not divulge the kind of work Pace is doing for Gazprom. Pace is owned by Siemens, a German company.

Pace's work for Gazprom has raised some eyebrows in Washington, and Hill noted that industry watchers in Europe already believe Russia is bankrolling environmental groups that are loudly opposing plans for fracking in Europe, which could cut down on Russia's natural gas market.

"I've heard a lot of rumors that the Russians were funding this. I have no proof whatsoever," she said, noting that many critics give the rumors credence because Gazprom owns media companies throughout Russia and Europe that have run stories examining the environmental risks of fracking.

Gazprom dismissed such conspiracy theories, saying that "nothing could be more out of touch with Gazprom's inherent interests," because the shale boom promotes gas as an abundant, affordable energy source.

Many U.S. media outlets, including the AP, have run stories about shale gas and the environment. Regulators contend that overall, water and air pollution problems are rare, but

environmental groups and some scientists say there hasn't been enough research.

U.S. energy companies are eager to export natural gas products. The issue is sensitive enough that the Obama administration has delayed a decision on export permits until after the election. In April, the Sierra Club sued to block one plan for exports, saying it would drive up the cost of domestic natural gas and lead to environmental damage.

But just the potential for exports could allow others to seek lower prices from Russia, said Kenneth Medlock III of the James Baker Institute for Public Policy at Rice University in Houston.

"It changes the position at the bargaining table for everybody," Medlock said. "You stack all that up, and you start to realize, 'Wow.'"

There's one enormous unknown with the shale gas bounty in the U.S., Hill said. Unlike in Russia and some other countries, neither the government nor any one private company can really control or direct it.

"The question is, can the U.S. do what the Russians do, which is use this as a political tool?" she said.

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