

Gazprom to Further Cut Gas Prices for Europe

By [The Moscow Times](#)

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Gazprom will cut pipeline gas prices for European buyers this year in response to competition, its top export official said Tuesday.

Gazprom, Russia's largest company by market capitalization, generates about 55 percent of its gas revenues in Europe where it supplies about a quarter of gas needs. Its revenues from gas sales to Europe declined 3 percent last year to \$55.9 billion.

The company has already had to give in to pressure to cash-strapped European buyers locked into long-term supply contracts, cutting prices and returning some money in "retroactive payments." This year's reductions will be smaller, however.

"The price correction will be even less than in the previous round of talks, when it stood at 7 to 10 percent," Alexander Medvedev, the head of Gazprom's export arm, told a briefing.

Total rebates to European companies stood at 102.7 billion rubles (\$3.22 billion) in 2012.

Following the first adjustments last year, Gazprom's export volumes to Europe have recovered slightly, clawing back some market share it had lost to Norwegian rival Statoil, which supplies most of its gas under spot market deals that are currently cheaper than Russia's contracts.

Medvedev said the repayments were expected to total less than \$800-\$900 million this year, although this amount excludes possible payments to Germany's utility RWE, which has been involved in an arbitration case with Gazprom.

Medvedev also said Gazprom would continue to cut prices this year in new deals where its sale prices are pegged to declining oil prices, though at a slower pace than has been the case.

He said new deals could include Italy's Eni and France's GDF Suez SA.

Medvedev expects the average gas price for Europe in Gazprom's long-term contracts will decline to \$370-\$380 per 1,000 cubic meters from \$402 last year, confirming previous reports.

The proposed price drop to Europe would translate into a fall from \$14.8 per million British thermal units (mmBtu) to about \$13.7 per mmBtu.

While this is still higher than the average price of \$9 per mmBtu paid at Europe's benchmark gas hub, Britain's National Balancing Point (NBP), it is competitive with winter spot prices and below those paid for Asian liquefied natural gas (LNG) cargo.

In a move to strengthen its European hold, Gazprom wants full access to Germany's Opal pipeline, an extension to the Nord Stream link built by Russia to bypass transit countries such as Ukraine.

Some analysts reckon Gazprom's 2013 forecast for gas prices is too low, meaning it may be factoring in a possible pay-out to RWE Transgas.

"Medvedev is trying to say that ... there is still a risk from the RWE process, which he didn't include into his estimates," said Alexei Kokin, an analyst with Uralsib brokerage in Moscow, forecasting average sales prices at \$400 this year.

He said Gazprom may hit its target to raise its exports to Europe to 152 billion cubic meters (bcm) from 139 bcm last year.

Gazprom increased its exports to Europe by 7 percent in January-May to 66.6 bcm, while the average price in the first quarter stood at \$399.42 per 1,000 cubic meters.

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