

Medvedev Backpedals on Gas Price Equalization

By [The Moscow Times](#)

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The government might abandon plans to equalize the profitability of gas sales on the domestic and export markets in a move that, though a boon to industry, will hit state giant Gazprom's margins hard, Kommersant reported Thursday.

While "at one time" the aim of increasing domestic gas prices was appropriate, it is now time to "stop and understand" whether that policy is best for the country, Prime Minister Dmitry Medvedev said.

An increase in domestic gas prices has been championed by Gazprom, which argues that low rates lead to inefficient use. The company stands to lose \$60 billion of revenue over a five-year period as a result of the decision not to pursue domestic price increases, Mikhail Korchemkin, director of East European Gas Analysis, told Vedomosti.

Gazprom's chief financial officer Andrei Kruglov said Thursday that though revenue and core

profit will remain stable, it expects its 2013 net profit to fall by up to 10 percent due to low gas tariffs, high taxes and rebates to European clients, after a 9.2 percent fall in 2012, Reuters reported.

In 2007, the government announced its support for domestic gas price increases, but action on the issue has been repeatedly delayed and diluted.

In the midst of an economic slowdown — industrial production in Russia in the first five months of 2013 grew by only 0.2 percent — the government had been considering whether to help Gazprom earn taxable profit or assist domestic industry by keeping gas prices down.

According to the Federal Tariff Service, the price of gas, excluding reducing coefficients, should be 7,900 rubles (\$241.5) for 1,000 cubic meters. Gazprom sells gas on the internal market at an average price of 3,050 rubles.

President Vladimir Putin said at the St. Petersburg economic forum last week that the growth of utility prices should not exceed the level of inflation, or 5 to 7 percent per year.

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