

China and Russia Sign Gazprom Supply Agreement

By [The Moscow Times](#)

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Russia's President Vladimir Putin (L) and his Chinese counterpart Xi Jinping shake hands before the opening ceremony of the fourth Conference on Interaction and Confidence Building Measures in Asia (CICA) summit in Shanghai.

China and Russia signed a long-awaited, \$400-billion gas supply deal on Wednesday, securing the world's top energy user a major new source of cleaner fuel and opening a new market for Moscow as Europeans look elsewhere for their energy.

Russian President Vladimir Putin and Chinese counterpart Xi Jinping applauded as they witnessed the deal being signed in Shanghai between state-controlled entities Gazprom and China National Petroleum Corp, or CNPC.

The deal is a political triumph for Putin, who is courting new partners in Asia as customers in Europe attempt to reduce their reliance on Russian gas to bolster their bargaining positions

with Moscow after its seizure of Crimea from Ukraine.

But from a commercial point of view, much depends on the so far undisclosed price and other terms of the contract, which has been more than a decade in the making.

Industry insiders said China had the upper hand in negotiations as they entered their final phase, aware of Putin's need for new customers as his isolation in Europe intensified.

"This is indeed a historic event for the gas sector of Russia and of the Soviet Union," he said. "This is the biggest contract in the history of the gas sector of the former USSR.

"I want to stress that there was hard work done on the expert level. Our Chinese friends are difficult, hard negotiators," he said, noting that negotiations went on until 4 a.m.

"Through mutual compromise we managed to reach not only acceptable, but rather satisfactory, terms on this contract for both sides. Both sides were in the end pleased by the compromise reached on price and other terms."

SOME QUESTIONS REMAIN

Industry estimates showed that the price of the agreement may have come in at around \$350 per thousand cubic metres. The Western European average is \$380.

Company sources said China offered to pay more than the approximately \$9 per million British thermal units (mmBtu) it pays for Turkmenistan supplies, while the lowest offer by Russia was at about \$9.67 per mmBtu.

Another potential sticking point has been whether China would pay a lump sum up front in order to fund considerable infrastructure costs.

Gazprom CEO Alexei Miller said that element of talks remained unresolved, but Putin said China would provide \$20 billion for gas development and infrastructure and that the price formula was similar to the European price tied to the market value of oil and oil products.

Analysts said broader, political factors were likely to have been at play around the negotiating table.

"Given the EU sanctions that could potentially hit Russia, I don't think Gazprom is in a position to strike a very high price for its gas," said Gordon Kwan, head of Asian oil research at Nomura.

He added that CNPC would be driving a hard bargain in the wake of a corruption investigation that rocked the company last year and as Xi seeks to stamp out graft more broadly.

The gas will be transported along a new pipeline linking Siberian gas fields to China's main consumption centres near its coast. Russia will begin delivering from 2018, building up to the annual target of 38 billion cubic metres, officials said.

Putin announced that Russia planned to invest \$55 billion in exploration and pipeline construction up to China. CNPC said it would build the Chinese section of the pipeline.

Shares in Gazprom rose almost two percent after the deal was announced, but they retreated to be up 0.8 percent at 1236 GMT.

See also:

[Long-Awaited Russia-China Gas Supply Deal Eludes Putin in Shanghai](#)

[Putin Says Russia-China Gas Deal Preparations in 'Final Phase' Ahead of Visit](#)

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