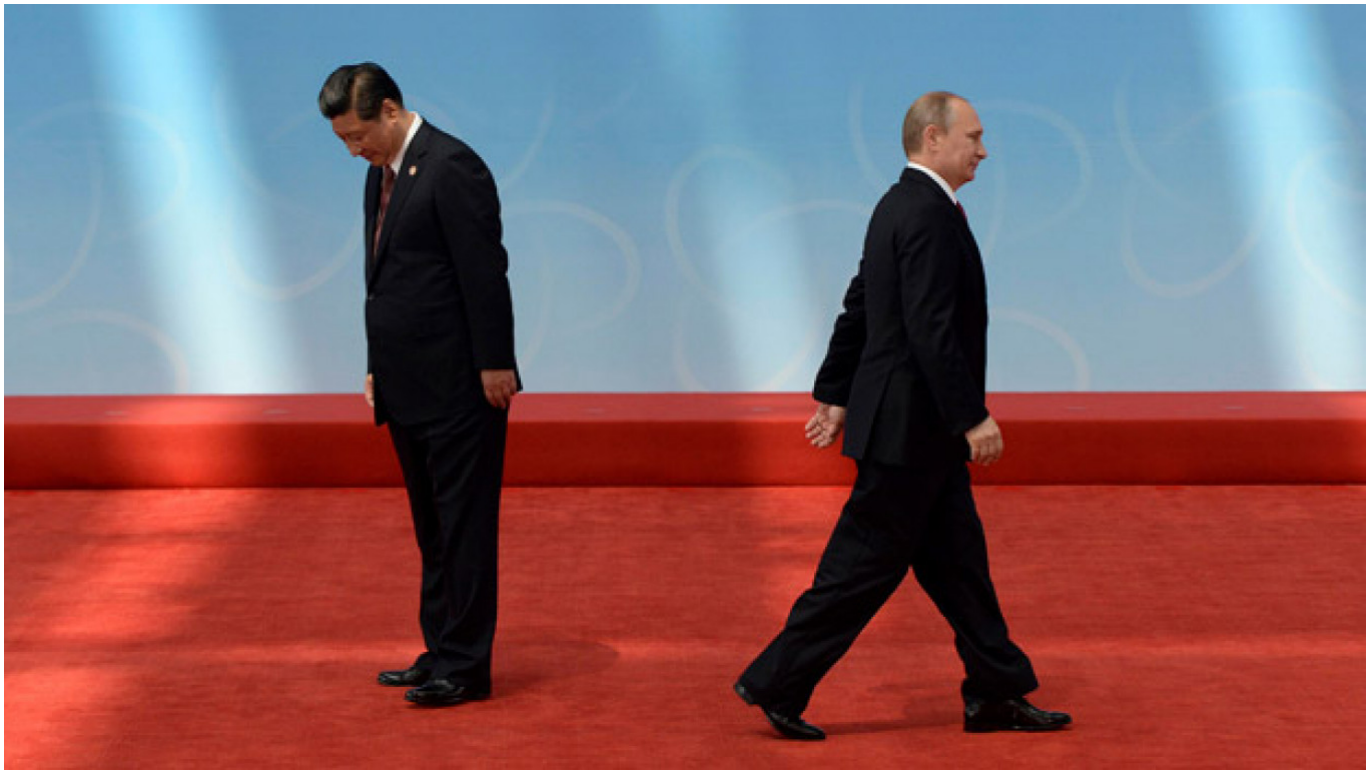
The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Russia-China Gas Deal Signed to Applause — and Skepticism

By Allison Quinn

May 21, 2014



Putin leaves after shaking hands with his Chinese counterpart Xi Jinping in Shanghai, where Russia and China signed a much-anticipated gas deal.

Hours after the long-anticipated signing of a 30-year multi-billion dollar gas deal on Wednesday between Russia's Gazprom and China's National Petroleum Corporation, analysts poked holes in President Vladimir Putin's touting of the deal as a political triumph and a "milestone event," saying it would barely be profitable for the Russian corporation.

Gazprom CEO Alexei Miller declined to reveal the price per cubic meter of gas under the contract, calling it a trade secret, but judging by the overall volume and price of the deal — $400 billion for 38 billion cubic meters a year for 30 years — it would boil down to around $350 per thousand cubic meters.

"This is the biggest contract in the history of the gas sector of the former U.S.S.R.," Putin said after the signing of the agreement in Shanghai during a meeting with Chinese President Xi

Jinping, Reuters reported.

"Our Chinese friends are difficult, hard negotiators," he said.

Alexei Pushkov, the outspoken pro-Kremlin chairman of the State Duma's International Affairs Committee, echoed Putin's optimism about the deal, hailing the contract with China for its "strategic significance."

"Obama should give up the policy of isolating Russia: It will not work," Pushkov wrote on Twitter.

Pushkov's comments seemed to indirectly confirm what some observers were already thinking: that the deal's signing may have been — at least in part — Russia's response to Western sanctions and threats of isolation.

Widely seen as a triumph for Moscow's ambitions to expand eastward, the deal came after nearly a decade of the two sides haggling over the price — and precisely as Russia seeks to flex its geopolitical muscle before the West amid ongoing tensions over Ukraine.

The deal will allow Russia to diversify its gas supplies and expand eastward, making it less dependent on revenue from Europe's gas needs. If there was any intention of using the deal to force the West to recognize Russia's newfound clout, it may have worked.

European Commission President Jose Manuel Barroso sent a letter to Putin on Wednesday shortly after the conclusion of the deal reminding the Russian president of Gazprom's obligation to ensure gas supplies to Europe and abide by earlier agreements, Reuters reported.

Despite the pomp and circumstance with which the deal was sealed, however, observers were nearly unanimous in noting that under the terms of the deal, Gazprom would barely break even. Speculation erupted on the Russian blogosphere that Moscow had softened its terms in order to score a victory in the East to offset comprehensive criticism in the West.

Kremlin critic Boris Nemtsov mocked the deal on Facebook as not the "deal of the century" that Putin described, but as "total loss and robbery."

Putin said the overall volume of investment required to build the infrastructure for the gas supplies was close to $70 billion, and that Russia would have to provide at least $55 billion of that.

An advance payment of $25 billion agreed to by China will go straight to the construction of a new pipeline for gas flows to the East, Itar-Tass reported.

In one clear sign of Russia's eagerness to finally clinch the deal, Putin on Tuesday offered to cut the mineral extraction tax for all gas supplied to China. China, in turn, said it would scrap import taxes for Russia.

Grigory Birg, co-director of the independent analytical agency Investcafe, said the profits expected from the deal are far below those usually generated in the gas industry.

"Considering the price for gas would be above $350 per thousand cubic meters, we estimate the rate of return for Gazprom for this project at about 10 percent. By comparison, 15 to 17 percent is considered appropriate by the gas industry so it is evident that the revenues would be low," Birg said.

But the real clincher, Birg said, was whether it would be economically advantageous for Russia to strengthen ties with China in general, especially in light of the ongoing standoff with the West.

The answer to that question is clearly yes, he said.

Putin has made clear that he sees China as a priority partner, and the two have frequently found themselves allied over political issues, including as the only two members of the UN Security Council to vote against resolutions imposing sanctions on Syria.

Gilbert Rozman, a Princeton University professor specializing in Northeast Asia, said it would not be wise to read too much into the gas deal, however, as it may be just one tiny part of the wider scheme of Russia-China relations.

"It is quite possible that Gazprom's deal is a tradeoff for other things that are not being emphasized, such as perhaps advanced weapons. China may also want some political support from Russia in its struggle against countries like Japan and Vietnam," Rozman said.

But Rozman agreed with Birg that politics played a bigger role than anything else.

"As Russia's ties with Europe have been strained, Russia wants to emphasize its relations with Asia and the Asian economy. This [deal] is just one more element of strengthening China-Russia relations," he said.

Contact the authors at a.quinn@imedia.ru and a.panin@imedia.ru

Original url:
https://www.themoscowtimes.com/2014/05/21/russia-china-gas-deal-signed-to-applause-and-skepticism-a35653