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Russia's Ditching of South Stream Hits Italian Oil Services Firm Saipem

By The Moscow Times

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Russia's scrapping of the $40 billion South Stream gas pipeline threatens to undermine Saipem's order book in the latest of a string of setbacks for the Italian oil services firm.

South Stream's demise, caused by plunging energy prices and European opposition, may unwind up to 2.4 billion euros ($3 billion) of contracts to lay the pipe's offshore section won by Saipem this year, or 10 percent of its orders.

It is just the latest blow for a company which lost half its stock market value last year following two profit warnings, and cut this year's profit forecast in July.

Saipem shares, which stood at 29.3 euros at the end of 2012, slumped 10.8 percent on Tuesday to a six-year low of 10 euros.

A sharp drop in oil prices had already triggered concerns Saipem could suffer further as

producers cut investment. It has seen slimmer pickings of late due to delays and overspending at big projects such as the Kashagan oil field in Kazakhstan.

Still, Italy remained cautious about comments from Russian President Vladimir Putin and Gazprom CEO Alexei Miller that South Stream was scrapped.

"On South Stream, the coming days will tell us if the announcement made yesterday by Putin is final or not," Italy's new Foreign Minister Paolo Gentiloni said Tuesday.

Saipem said it had not yet received formal notice of the termination of any South Stream contracts and operations were still under way.

"The potential interruption of work and any possible cancellation of the project are subject to the terms of the contract," Saipem said.

A banker familiar with the matter said losses stemming from cancellation of the contracts could exceed 600 million euros.

"They already have two ships in the Bosporus ready to leave. They have been contracted for a couple of years so, unless they find a new project to allocate them to, they have idle costs which are hard to calculate but could be several hundred million," the banker said.

"We need to see how much of these idle costs and missing profit the contract allows them to recoup, but I can see an overall hit of over 600 million euros," he said.

More than a decade in the works, South Stream's fate grew uncertain due to the Ukraine crisis, while state-run gas exporter Gazprom also clinched breakthrough gas supply deals with China as part of its strategic sales pivot to Asia.

Italian oil major Eni, which owns 43 percent of Saipem, is a stakeholder in South Stream and has set aside 600 million euros to bankroll the project.

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