The Moscow Times
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Russia's Gazprom Building Global Alliance With Shell

By The Moscow Times

June 23, 2015

Gazprom is building a global strategic alliance with energy major Royal Dutch Shell that will include asset swaps and allow the Russian gas giant to penetrate new markets, its chief executive has said.

Gazprom, the world's top gas producer, said late last week that Shell and its longtime gas buyers in Europe — Germany's E.ON and Austria's OMV — had agreed to build two new Nord Stream gas pipelines under the Baltic Sea to Germany.

In a rare interview, chief executive Alexei Miller said the agreement with Shell also foresaw an expansion of the firms' joint $20 billion liquefied natural gas plant on the eastern island of Sakhalin as well as global upstream asset swaps.

"Documents of such significance are signed only once every five years or maybe even 10," Miller said on the sidelines of Russia's top forum for investors in St. Petersburg last week.

The deal with Shell is a coup for Gazprom at a time when many Western companies are reducing their exposure to Russia because of Western sanctions over Moscow's actions in Ukraine.

Gazprom, which is under U.S. but not EU sanctions, is fighting for market share in Europe in the face of increasingly oversupplied gas markets, and is locked in a long-running dispute over payments to Europe with conflict-stricken Ukraine.

"Many of our traditional partners are positioning themselves as strong regional players. ... Shell is a global player. And as the global gas markets develop ... we will be creating a global strategic partnership," said Miller.

Shell agreed to buy smaller rival BG for $70 billion plus debt earlier this year and Miller said the deal was adding extra potential to cooperation, such as upstream asset swaps between Gazprom and the Anglo-Dutch giant.

"The deal will take some time to materialize. Shell for instance needs to become the full owner of BG," he said. "We plan that next year we could sign such a deal in St. Petersburg at the same forum."

Shell needs to win anti-monopoly clearance for the BG purchase from authorities in Brazil, Australia and China where it already has a very significant presence.

"We know about Brazil, Australia and about the Asian market. And that allows us to talk about a global partnership," Miller said.

Business Decision

Asked how he persuaded Shell to boost cooperation at a time many Western companies were curbing exposure to Russia, Miller said business was winning over politics.

"As far as Nord Stream is concerned — there was no politics at all. The decision was taken in November 2011 and all the work has been done based on the decisions taken three years ago," he said.

Cooperation with Shell would not be limited to asset swaps or swaps of Gazprom's pipeline gas in Europe for Shell's LNG and could include oil products and other fuels, he said.

Gazprom and Shell also agreed on Thursday to expand the Sakhalin LNG plant, Russia's sole LNG plant, by adding a third LNG train to the plant, which currently produces 10 million tons.

The third train was the expansion plan most favored by Shell, which has a minority stake in the project.

In Europe, Miller said two new Nord Stream pipelines under the Baltic to be built with Shell, E.ON and OMV would transport an extra 55 billion cubic meters of gas, or more than a tenth of Europe's gas demand by the end of 2019.

Gas will travel far beyond Germany, he said, as OMV aims to turn Austria into one of Europe's largest gas hubs.

The project will cost no more than 9.9 billion euros ($11.2 billion) and maybe less due to cost savings, compared with 8.5 billion euros spent on the two existing lines.

The project will be financed in the same way as the first two lines, with 30 percent coming from shareholders and 70 percent from bank loans.

"Our level of readiness is very high," Miller said.

Preparatory work on such large projects usually takes years but Miller said a great deal of work had been already done, including project and route design, selection of many contractors and pipe supplies.

The 1,225 km pipeline would start near the Russian port of Ust-Luga near St. Petersburg and enter German territory not far from the current entry point of Nord Stream 1 and 2.

Nord Stream currently has an annual capacity of 55 billion cubic meters. Its shareholders are Gazprom, BASF's Wintershall, E.ON, Gasunie and France's ENGIE.

No Turkish Stream Rival

Miller said Wintershall will likely join the project to build the two new pipelines under the Baltic and said the project was designed to deliver new gas to Europe, rather than replace the Turkish Stream project to build a new pipeline in Europe's south.

"This is not a competitor of Turk Stream in any way."

Gazprom wants to bypass Ukraine, its key gas export route to Europe, and plans to build the Turkish Stream pipeline under the Black Sea to ensure smooth transit of Russian gas when the transit contract with Kiev expires in 2019.

Gazprom is currently allowed only limited access to the Nord Stream pipeline under a European Union law which seeks to prevent energy suppliers from dominating infrastructure.

But Miller said over time Europe's gas demand was poised to rise and new pipelines from Russia would be needed.

"We met our partners in Europe and they are signaling to us that supplies from traditional European gas production sources is falling, and falling substantially. Without new volumes of Russian gas they simply cannot cope," Miller said.

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