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Russian Efforts to Bypass Ukraine Gas Route Stall as Saipem Deal Off

By The Moscow Times

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MOSCOW / MILAN — Russia's plans to drop Ukraine eventually as a route for piping its natural gas to Europe have hit a snag after Russian gas exporter Gazprom called off a deal with Italy's Saipem to build a subsea link to Turkey.

Russia has long sought to circumnavigate Ukraine to pipe its gas to Europe because of pricing disagreements, which have led to disruptions in supplies to the European Union.

Moscow has already reduced gas shipments to the EU via Ukraine to around 40 percent of its total exports, from around 75 percent a few years ago. It has threatened to halt the flows completely after 2019, when a 10-year transit deal expires — though it softened its stance recently.

The now-terminated Saipem contract — worth 2.4 billion euros ($2.7 billion) — is the latest in a string of failed attempts by Gazprom to diminish Ukraine's role in its gas exports.

The cancellation also puts a question mark over Gazprom's goal of building gas pipelines to Turkey and further to southern Europe via the Black Sea with a total capacity of 63 billion cubic meters (bcm) a year, in what would be the world's largest undersea gas infrastructure.

An industry source told Reuters on Wednesday that Gazprom had told pipeline makers to suspend deliveries of pipes for expanding Russia's network so it could be connected to the so-called TurkStream project. Russia and Turkey are yet to agree on terms of the link.

"The decision was dictated by the inability to reach agreement on works and commercial matters," Gazprom said in a statement about the contract's termination.

Shares in Saipem at one stage fell more than 6 percent on Thursday, making it the biggest loser on Milan's bourse.

The stock was down 4 percent at 8.42 euros by 12:23 GMT.

Saipem said it had been notified of the contract termination as one of its vessels was mooring in Russian waters to start laying pipes. Any compensation will be determined in accordance with the contract's terms, it said.

TurkStream was brought forward in December, when Russia dropped plans to build the undersea South Stream gas pipeline to Bulgaria due to EU constraints.

Mounting Costs

Gazprom already has direct underwater gas pipelines to Europe via the Baltic Sea in a project called Nord Stream. However, it has not utilized its full annual 55 bcm capacity due to restrictions in the EU concerning the pipeline's ownership.

Bank of America Merrill Lynch said in a note that Gazprom should reject plans to lay costly undersea gas pipelines and engage with Ukraine instead.

"We believe that a better solution for Gazprom would be to join forces with the EU and Ukraine to upgrade Ukraine's existing infrastructure," it said.

"While such a solution would be commercially preferable, we realize that, under current geopolitical tendencies, it could be hard to achieve."

Relations between Russia and Ukraine, as well as between Moscow and Brussels, are strained because of the Ukraine conflict. The West accuses Russia of sponsoring pro-Russian rebels there, charges Moscow denies, and has slapped economic sanctions on Russian companies and individuals.

Russian Energy Minister Alexander Novak said Russia was continuing work on TurkStream, despite the cancellation of the Saipem deal.

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