

## The RWE-controlled Czech gas company is in dispute with Gazprom

The gas company RWE Transgas, which has a dominant position on the Czech market, confirmed on 5 May that it had been a party to arbitration proceedings with the Russian gas supplier, Gazprom Export, since last December. RWE Transgas wants to renegotiate the gas price formula because of the increasing difference between the price of gas supplied under the long-term contract and gas prices on the spot market. This dispute is an element of the strategy adopted by RWE's central office in Germany, which has launched a number of arbitration proceedings with gas suppliers. A possible success for RWE Transgas is likely to encourage other Gazprom contractors to resort to arbitration for the renegotiation of analogous long-term contracts.

Since the end of 2009, growing oil prices on global markets and ever larger supplies of liquefied gas to Europe have caused an increasing difference in the prices of gas on the spot market and those set in long-term contracts. The Czech company RWE Transgas, which is part of the German corporation RWE, made an attempt to renegotiate the contract last year. It is probably demanding that part of the gas supplied under the contract from Russia be sold at spot market prices. In February 2010, Gazprom made such a concession to its largest contractors (E.ON, ENI, GDF Suez and Botas). According to calculations made by the executives of RWE Transgas, as a consequence of the uncompetitive price of the imported gas the net profit of RWE in the Czech Republic fell by 36% in 2010 in comparison to the preceding year. RWE announced its decision to raise gas prices by 9.5% in April this year. As a result, RWE is becoming less competitive than smaller, more flexible gas suppliers, and is thus losing its dominant position on the Czech market.

In 2009, RWE Transgas supplied 7.6 billion m<sup>3</sup> of gas to the Czech market. The Czech Republic is more than 90% dependent on gas imports. Approximately 60% of its gas imports come from Russia, and the rest is supplied on the basis of contracts from Norway and purchased from the German natural gas exchange. If the parties do not reach agreement earlier, the arbitration court is expected to announce its verdict at the end of 2012. RWE is engaged in the construction of the Nord Stream gas pipeline's branch in the Czech Republic (Gazela). However, at the same time, RWE has been consistently supporting the construction of the Nabucco gas pipeline, as it has turned down Gazprom's proposals of co-operation on the South Stream gas pipeline project. <grosz>