

Gazprom plans to expand to the East

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On 30 October, Gazprom's Board of Directors approved a change in the investment programme for this year. The company plans to increase its capital expenditure for investment to around \$31 billion (a rise of about 25% compared with the original programme approved in December 2011). The document foresees that most of this amount (over \$27 billion) will be allocated to production, specifically extraction projects and the construction of gas pipelines. Additional funds are to be directed to implementing the South Stream project. However, the main reason for the planned increase in spending is to increase investment in the so-called Eastern Gas Programme transmission system (Sakhalin–Khabarovsk–Vladivostok). In total, by 2018 (which is the investment's planned completion date), the costs of constructing the system, together with the planned LNG plant in Vladivostok, are estimated to exceed \$35 billion. The costs of developing the project's resource base – the Chayanda deposit in Yakutia – are estimated at approximately \$14 billion.

Commentary

- The increase in Gazprom's investment budget represents, among other things, the company's response to President Vladimir Putin's order to maximally accelerate the implementation of the Eastern Gas Programme, which will develop a new production centre in eastern Siberia. The creation of this centre would facilitate Gazprom's expansion to the East, especially onto the markets of China, South Korea and Japan. The rush to work on this project is due to the fact that within the next few years (2015-2017), the already very competitive global gas market will be expanded by large quantities of liquefied natural gas (LNG) from the US, Canada and Qatar. It is in the interests of Gazprom, which is working to enter the Asian market so it can diversify its exports, to take a position on the marketplace as quickly as possible.
- However, a question mark remains over the funding for the eastern programme, which would consume a total of about \$50 billion (some experts have even estimated these costs at over \$60 billion). Doubts have also been raised about the possibility of implementing the project within the desired timeframe. In today's rapidly changing situation on the gas market (LNG supplies are surging, and gas supplies are coming from unconventional sources), it is not known whether the potential benefits of these projects

will be able to offset the costs of their implementation.

- As in all Gazprom's previous investment programmes, the company intends to spend a major part of the money on building gas pipelines to Europe – the Yamal (from the Bovanenkovo deposit), Nord Stream and South Stream pipelines. Their plans to expand in this direction remain unchanged, despite significant changes on the European gas market (growing competition from other suppliers, a fall in consumption, and decreasing interest in expensive Russian gas).