Analyses OSW

CENTRE FOR EASTERN STUDIES 5.09.2012 www.osw.waw.pl

Gazprom indefinitely suspends the development of the Shtokman deposit

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On 29 August, Gazprom announced the indefinite suspension of its plan to develop the Shtokman deposit, which is located on the Russian continental shelf in the Barents Sea. A representative of the company stated that the main reason for this decision was the project's excessively high costs. However, he said that no further decisions on this issue, including any possible decision on investments, should be expected before 2014.Representatives of the French company Total denied that the decision was the result of any deal with its Russian partner, and confirmed their interest in continuing cooperation.

Earlier another foreign partner in the project, Norway's Statoil-Hydro, withdrew, giving Gazprom a 24% stake in Shtokman Development AG. Statoil-Hydro's decision was taken after the expiry on 30 June of the framework agreement on the Shtokman project, which the partners had signed in February 2008.

Commentary

- Gazprom's decision resulted from a number of economic factors; one of the most important is the current downturn in the world gas markets, especially in Europe. Also, a technological breakthrough in the US, enabling the extraction of gas from shale, has lowered prices. Another important reason is the higher than originally estimated cost of the project (initially US$12-14 billion, but now around US$30 billion according to current estimates), as well as priority being given to investment in developing the gas deposits on the Yamal (the work is more advanced, the costs are lower, and Gazprom can finance the project itself). Statoil-Hydro's decision to withdraw from the joint venture also had a significant impact on Gazprom, because this costly investment project would not be possible without financial and technological support from foreign partners. In addition Gazprom's project, despite the political support of Vladimir Putin, has not received the concrete assistance from the government which would have aided the investment (such as tax breaks or grants).

- Gazprom's behaviour indicates that although the company does not intend to officially give up on one of its strategic projects, in practice it is likely to be limited in the coming years to diversionary activities (it has announced a new expert estimation of the project's costs, as well as talks with current and potential partners on the project's technical details). It is possible that work on the project will resume within 10 to 15 years. Mining the Shtokman deposits (3.9 billion m³ of gas and 53.3 million tons of gas condensate) could prove profitable if the long-term forecasts prove accurate (the IEA estimate that demand for gas will rise by over 50% to 2035).

- The suspension of Gazprom's strategic project and Statoil's withdrawal from the Hydro Shtokman Development AG company may also indicate the gas monopoly's declining position in relation to other actors in the Russian energy sector. This is confirmed by the projects with foreign partners being undertaken by Rosneft (which has signed agreements with ENI, Statoil-Hydro and ExxonMobil) and Novatek (with Total).

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