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Gazprom has reduced its gas supplies to Europe

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In the period between 30 January and 6 February, Gazprom reduced its supplies to the European market via the Ukrainian gas pipeline network. The transmission of Russian gas to Europe via other routes – such as the Yamal gas pipeline and Blue Stream – was increased. Reductions in supplies on specific days ranging from 6% to over 30% (in relation to the maximum of the contracted quantity of gas) were recorded at this time in Slovakia, Austria, Hungary, Poland, Bulgaria, Romania, Greece and Germany. The biggest problem was in Italy, where the situation on the domestic gas market was deemed critical; from 30 January to 6 February, at a time when gas consumption has increased to a historic high, gas supplies from Russia were below those contracted for by 25-30%. Overall, in this period Gazprom's contractor states managed to make up for the shortage of gas from Russia with gas from European storage facilities, as well as supplies from other vendors. The situation is gradually stabilising, although 7 February was still difficult for Italy. Gazprom has already met most of the contracts, although it openly admits that now – during a peak demand for gas in Russia itself – it is unable to provide additional supplies (in excess of the contracted amounts) to its European customers.

Commentary

- The first Russian reactions to reports on the drop in Gazprom supplies to Europe were a mass of contradictions. The chaotic, contradictory signals from Russia (ranging from denials that any reduction in the supply had taken place, through accusations of Ukraine's unsanctioned gas consumption, to accusing the European customers of excess gas consumption) have not explained the shortage of Russian gas for the monopoly's most important sales market in a period of very high gas prices. However, this could indicate an organisational failure within the company, or an insufficient capacity to respond quickly and effectively to a change in the situation.

- The causes of Gazprom's delivery problems to Europe seem to be rather commonplace. The first is the hard frosts in Russia and Europe, which have resulted in a rapid increase of gas consumption and demand. The second is the company's inability to rapidly increase the transmission of additional quantities of gas from the extraction region (Western Siberia) to the European part of Russia, for which underground gas storage facilities are essential. Gazprom itself has abandoned the plan to build such facilities in Western Siberia (scheduled for 2005-2010) in order to build the Nord Stream gas pipeline instead. Gas production in Western Siberia has also fallen (the maximum daily production has declined by about 200 million m³ over the last six years). In addition, Russia has for unknown reasons ignored the possibility of using gas reserves stored in underground reservoirs in Ukraine.

- The current problems with supplying Russian gas to Europe have once again undermined Gazprom's reputation as a reliable supplier. Nevertheless, the company's management and the Russian government are trying to exploit them in a dispute with the EU on how Gazprom will operate on the EU market. Vladimir Putin, for example, sees the current problems of European consumers as an argument to implement the Russian South Stream project and complete the Nord Stream project as quickly as possible. For his part, the company's chief Aleksei Miller has stated that unless the problem of the 'third package' liberalising the EU energy market (which he believes would impede Gazprom's operations in Europe) is resolved, then Russia may be unable to satisfy Europe's demand for gas.