

Gazprom lowers its prices for selected customers

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On 17 January, Gazpromexport lowered gas prices for five of its European partners: the German company Wingas; France's GdF Suez; Austria's Ecomgas; Italy's Sinerge Italiane; and Slovakia's SPP. Taken together, they buy about 35 billion m³ of Russia's gas annually (a quarter of Gazprom's exports onto the European market). Details of the agreements have not been disclosed. According to unconfirmed news agency information, drawing on sources within Gazprom and the above-mentioned companies, the scale of the reduction is not significant (about 10-15%), and the prices were reduced by adjusting several indicators of the pricing formula. These companies are the latest beneficiaries of the Russian monopolist's pricing concessions. In 2010-2011, most of Gazprom's European customers held negotiations with the company on this matter, and twelve of them managed to obtain discounts. Negotiations are continuing in other cases (with the Czech Transgas RWE, Germany's E.ON Ruhrgas, and Europe Shell from Holland, among others). Several contractors (including Poland's PGNiG and Italy's Eni) have decided to settle their price disputes with Gazprom at arbitration in Stockholm.

Commentary

- This flexibility in Gazprom's pricing policy has been forced onto it by the situation on the EU gas market, which is unfavourable for exporters – namely, an oversupply of gas, increased competition among suppliers, a fall in spot gas prices, and pressure from all the European partners on the Russian company, as they demand a revision of its pricing policy. Since mid-2008, there has been a considerable difference between the prices of gas in Gazprom's long-term contracts (for example, the EU average at the end of 2011 stood at US\$480 /1000 m³) and those on the spot market (around US\$312).
- In the first round of price compromises (in 2010), Gazprom's biggest clients won an agreement to reduce gas prices; these were mainly German corporations (including E.ON Ruhrgas, Verbundnetz Gas and Wingas). In 2010-2011, Gazprom agreed to greater or lesser concessions for almost all of its customers (apart from SPP) who could have purchased gas from other sources. Special discount prices were also awarded to Turkey's Botas company, in exchange for permission from that country to build the South Stream pipeline in its economic zone.
- So far, the company has generally agreed to a small relaxation of some of the contracts' conditions (such as the 'take or pay' clause), or to sell contractors some of the Russian gas which they have contracted (10-16%) at lower spot prices. In keeping with current

trends on the European market, pressure from Gazprom's customers to change its pricing policy on the EU gas market will increase. Faced with the risk of losing its market share, Gazprom will most likely have to settle for more minor concessions which do not violate the basis of its pricing policy. It is thus unlikely that in the foreseeable future it will accept any of the more fundamental changes demanded by European consumers, resulting from the development of the market situation: primarily, these are the separation of the gas price formula from the prices of crude and petroleum products, and a thorough review of the long-term contracts.