Analyses OSW

CENTRE FOR EASTERN STUDIES 13.07.2011 www.osw.waw.pl

Gazprom's ambitious plans

In 2010 Gazprom recorded better results than in 2009 during the crisis but it did not manage to rebuild its position in Europe, as is revealed in the report for 2010 approved on 30 June by its annual General Shareholders Meeting. The data presented in the report shows that the monopoly's share in the European market declined in 2010 to 23% (in 2008 it stood at 27%). The modest results in Europe for 2010 are in contrast to the ambitious but rather unrealistic plans for the upcoming years, presented during the meeting. These plans seem to be based on the certainty that after the planned reduction of nuclear energy in several European countries, the EU will have no alternative except for Russian gas.

According to the data published in the report, in 2010 Gazprom's investments increased by nearly 40% (up to US$ 28 billion) and half of them (US$ 13.5 billion) were allocated to the construction of pipelines. In comparison with 2009 Gazprom saw an increase in production (by 10% - up to 508.6 billion m^3). Revenue grew by over 17% (up to US$ 122 billion) and the net profit of the company made from gas sales rose by 22% (nearly US$ 26 billion). Due to the rise in gas prices in Russia and the CIS, the company increased its revenues exclusively on these markets for the first time. In Europe both purchases of Russian gas and Gazprom's revenues fell minimally. At the same time the EU countries increased their gas imports by 8%, which proves that Russian gas remains uncompetitive. Gazprom, convinced that the rise in demand for Russian gas in the EU is inevitable (after several countries imposed restrictions on the development of nuclear energy and non-conventional sources of gas) is planning to step up investments in production in 2011 (Yamal projects) and transportation (new pipelines to Europe) to US$ 41.4 million. The ambitious programme of maintaining the position of the global leader includes an objective which seems impossible to implement in practice – securing 14% of the share in the world's LNG market (currently, it is less than 1%). Gazprom’s plans do not seem to take into account the processes which can change the present model of the EU market (such as the regulations of the Third Energy Package and the availability of shale gas) as Gazprom does not make allowance for modifications in the current rules of its presence in the EU, such as long-term contracts and the price formula based on oil listings. <epa>