

Problems for Gazprom with buying shares in CEGH

On June 21, the European Commission blocked Gazprom's purchase of shares in the Austrian Central European Gas Hub (CEGH) gas market, deeming the transaction to contravene the regulations of the Third Package, particularly the principle of autonomy of the infrastructure (separation of supply) of the EU's energy market. The Commission's decision does not imply a direct prohibition of the transaction, but the (undisclosed) conditions which it has set significantly alter its nature, which would ultimately hinder the implementation of Gazprom's strategy to strengthen its position on the European market.

Agreed in 2008, Gazprom's deal with Austria's OMV (which owns 80% of CEGH; the remaining 20% belongs to the Vienna Stock Exchange) provided for Gazprom to purchase a total of 50% of shares in the exchange, thus enabling it to manage the Trans Austria Gas Pipeline network of European natural gas pipelines. The Russian company would also gain effective control over the Baumgarten underground gas reservoir (which the CEGH owns), from which Russian gas is distributed to Western Europe, and which is also the destination of the planned South Stream pipeline. Baumgarten is also a focal point for coordinating the spot market in the region, and the EU's energy market regulations do not allow the producer to act independently on this market.

Gazprom considers the European Commission's decision to be unacceptable, but will most likely be forced to accept at least part of its conditions. As a result, Gazprom's influence will be reduced over the spot market prices, which are competitive with the gas prices of long-term contracts. As a shareholder in CEGH, Gazprom would be able to manipulate the prices of transactions on this market, for example by reducing or increasing the supplies of raw materials. <epa>