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More competition is undermining Gazprom's monopoly

On 3 March, Prime Minister Vladimir Putin endorsed the relaxation or abolition of the 'take or pay' principle in Gazprom's long-term contracts on the internal market, while maintaining it in export contracts. These more flexible conditions for Gazprom's deliveries to Russian customers have become essential, in the light of increasing competition from independent producers of natural gas for the domestic gas market. The announcement of the change to the regulations for domestic supply is also another signal that Gazprom is losing its position as the energy monopolist.

Gazprom makes long-term contracts on the internal market with local gas traders and industrial customers. The 'take or pay' principle allows suppliers to impose contractual penalties both for exceeding their gas collection and for consuming less than the contracted quantities of gas; this poses a problem especially for energy, chemical and metallurgy businesses, especially in the current economic crisis. Meanwhile, the government-run program to bring internal gas prices to realistic levels is making the Russian market attractive for producers of raw materials. The role of independent producers, who are beginning to compete for customers, is growing. For example, since 2010 Novatek has provided around 25% of the gas to the Chelyabinsk region, which until recently was a traditional customer of Gazprom. The company plans to increase its market share in this industrial region to 90% by 2020. In the last year, senior state officials have also called Gazprom's other monopoly privileges into question, especially its exclusive right to administer gas pipelines. These signals seem to indicate the gradual erosion of Gazprom's monopoly status. <EPA>