

Gazprom will double its gas purchases in Azerbaijan

On 5 September in Baku, Gazprom signed an agreement under which the Russian monopoly will increase its purchases from Azerbaijan from 1 billion cubic meters (bcm) in 2010 to 2 bcm of gas in 2011. This agreement, which is not immediately beneficial to Russia, is the price which Gazprom is ready to pay to minimise the possibility that Azerbaijan will export gas from the Caspian region to Europe along paths bypassing Russia, especially along the planned Nabucco pipeline.

Russia imports gas from Azerbaijan as part of the contract signed by Gazprom and SOCAR in 2009 to purchase 500 thousand cubic meters (tcm) of gas annually. The contract's flexible formula – with no limit on the size of deliveries – allows it to be increased without the need to sign new agreements. This fact was exploited in 2010, when deliveries rose to 1 bcm of gas. The current agreement provides for the doubling of deliveries in 2011, and an unlimited increase in gas imports from Azerbaijan from 2012.

The main beneficiary of the agreement is Baku, to whom Gazprom offered a high price (according to various sources, from US\$245 to US\$350 per 1 tcm of gas); also, thanks to the Russian offer, the Azeri government will find it easier to realise its strategy of diversifying its sales markets. For Gazprom, the transaction with SOCAR is not financially advantageous. Based on average gas price for European customers (according to Gazprom, currently US\$285 per 1 tcm), the fall in profits for the company resulting from selling 2 bcm of gas in Europe could reach around US\$150-200 million. However, Gazprom's current gestures towards Baku seem to be an element of the Russian company's long-term strategy to take control over the future export of gas from Azerbaijan after the activation of the second phase of the Shah Deniz project; in 2014, a rise in extraction from that field from 16 to 25 bcm annually is expected. <epa>