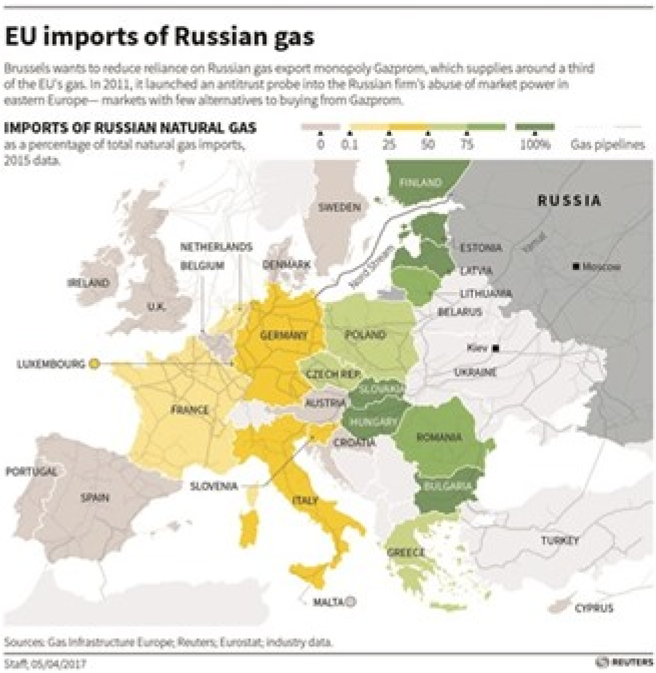
Big Utilities Back Proposed EU Deal with Gazprom



Some big utilities in eastern Europe are backing a proposed EU antitrust settlement with Russian state gas exporter Gazprom, increasing the chances of a deal that is opposed by countries striving to loosen the Kremlin’s grip over their energy sectors.

The provisional agreement, announced last month, would see Gazprom avoid a fine of up to 10% of its global turnover over EU charges it abused its dominant market position and overcharged clients in eight eastern European nations.

In return the Kremlin’s gas giant, which denies the charges, has offered concessions on contract terms and pricing to settle one of the EU’s largest, longest-running antitrust cases.

However, the deal is subject to feedback from EU states and market players in the region and could still be amended or even abandoned.

Many of the countries involved – once in the orbit of Moscow and reliant on Gazprom for the bulk of their gas supplies – are disappointed at the EU's deal-making.

They believe Russia has been exploiting their dependence in a region where gas prices can make or break governments and want to see Gazprom punished, EU diplomats said.

"Russia uses the full arsenal of tools to deploy influence: military, economic, political and even cultural," an EU diplomat said. "Is there a country that doesn't want this case solved? Probably not…but there is a lot of anger."

EU antitrust authorities say the case is not political and that the market response will take priority.

A settlement would smooth business ties with Russia, which supplies around a third of its gas, despite tensions over Ukraine and Syria.

The agreement has drawn a positive response from some big utilities and network operators which said it would allow them to strike better deals with Gazprom, increasing the likelihood the EU will accept the Russian company's concessions.

Bowing to EU conditions, Gazprom's offer would see it do away with contract terms that bar clients from exporting its gas to other countries and tie deals to investments in pipelines.

The company would also link its prices to benchmarks such as European gas market hub prices, rather than oil, and allow clients to renegotiate the prices every two years.

"It (the deal) is a very welcome step if it is made a reality," the head of Latvia's public utilities commission, Rolands Irklis, told Reuters. "It would give Latvia a direct access to the European markets even if (it) is not directly connected to the infrastructure," he said.

Aigars Kalvitis, head of gas utility Latvijas Gaze, which is partly owned by Gazprom, said the settlement could help it negotiate more favourable terms for its long-term Russian gas contracts, which expire in 2030.

Slovakian gas utility SPP said Gazprom had already scrapped curbs on cross-border trade and shown more flexibility on pricing in recent years.

The pledges could further boost integration on gas markets, a spokesman said, leading to “higher energy security”. The EU member states where Gazprom has allegedly engaged in anti-competitive behaviour are Poland, Estonia, Latvia, Lithuania, Bulgaria, Hungary, Slovakia and the Czech Republic. The eight governments and industry players have until May 4 to lodge objections to the proposal in the final chapter of a case which began with raids on offices in 10 countries in 2011.
A spokeswoman for the European Commission declined to comment ahead of the EU executive’s final assessment, saying there “no formal deadline” for its decision.
Its complex, politically-charged investigation has played out against the backdrop of tense relations since the EU imposed sanctions on Russia over the annexation of Crimea in 2014 and the subsequent conflict in east Ukraine, as well as deep disagreements over the Syrian civil war.
Brussels officials have repeatedly said they want to reduce the EU’s reliance on Russian gas.

Moscow argues the antitrust case is politically motivated – something denied by Brussels.
With a settlement, however, Russia would accept EU authority in applying competition law – something it has long balked at.
If it fails to abide, the EU could still impose fines.

In the five years since the EU began its antitrust probe, Gazprom has shifted its strategy under pressure from increased competition from LNG imports, price arbitration cases brought by Western customers and more liquidity on Europe’s energy markets.
It abandoned some of its most contentious practices and sold stakes in some gas pipelines in response to new EU energy rules.
Gazprom “is offering new trade tools, adapting and perfecting the contract model in accordance with our clients’ needs,” Elena Burmistrova, who heads its export arm, wrote in an industry publication earlier this year.

Some EU diplomats have questioned the Commission’s decision to pursue a case against US tech giant Google that will likely lead to hefty fines while settling with Russia’s gas exporter.

Poland has threatened to take the European Commission to court if it settles on a deal that its state-run energy company PGNiG called “far from enough”. PGNiG estimates it has been losing almost $1bn per year from buying Russian gas at oil-linked prices but reselling it at hub-linked prices.

Others say the settlement is too little, too late – particularly in the Baltic states and Czech Republic, which have taken their own steps to break Gazprom’s supply monopoly.

The Czech Republic, for example, has been buying Norwegian gas for several years.

“We have done the homework,” Czech energy security ambassador Vaclav Bartuska told Reuters. “You can only force your supplier to behave if he knows you have alternatives …fines and investigations can alleviate the situation for some time but are not a permanent solution.”

After Lithuania broke Gazprom’s supply monopoly by opening a Liquefied Natural Gas terminal in 2014, it won a 20% discount on Russian gas supplies.

Since 2015, it has been trading gas with Estonia and plans to include Latvia this year.

“Gazprom no longer has meaningful levers for influence in the Baltic states,” the head of its state-owned gas network operator Dalius Misiunas said.

Latvia, meanwhile, regards Gazprom’s settlement pledges as simply agreeing to abide by existing EU energy rules rather than making meaningful concessions, said Olga Bogdanova, head of energy at the economics ministry.

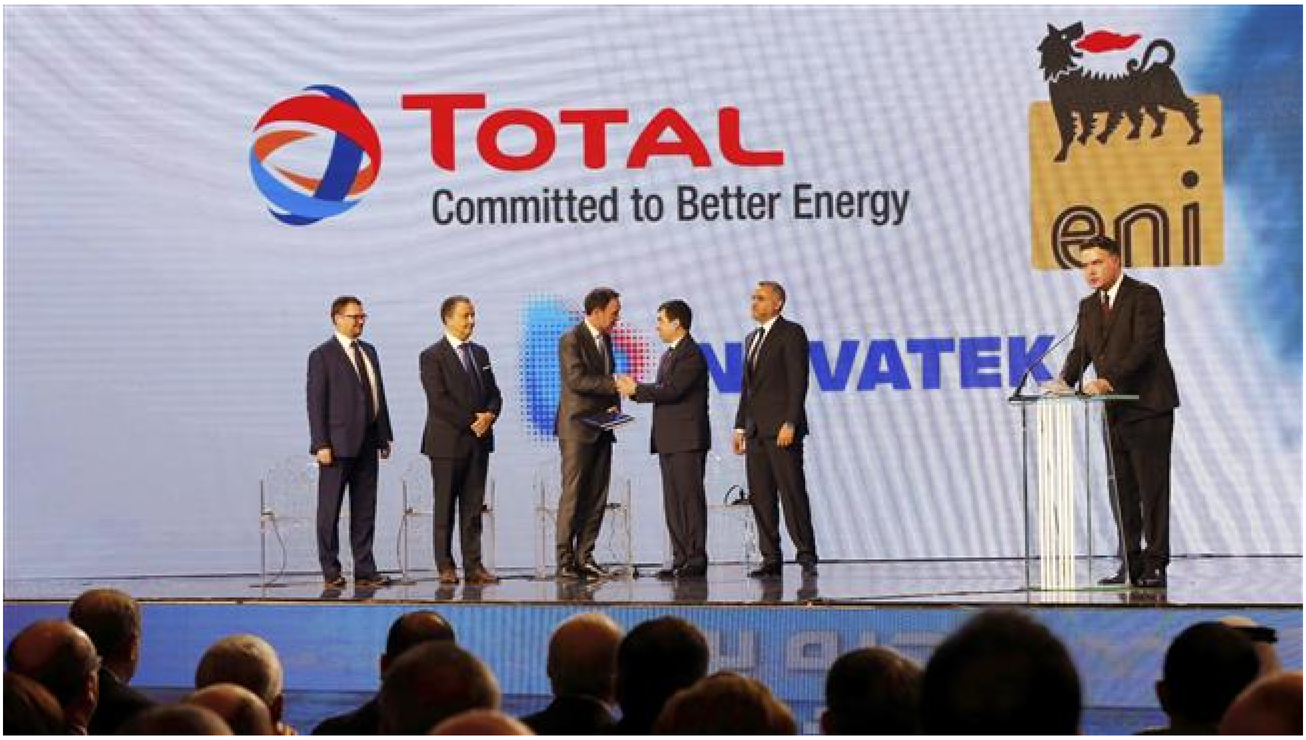
Despite the cautious optimism from bigger market players, traders and smaller clients said Gazprom’s concessions came with too many strings attached, such as restrictions on time, volume, location and fees for gas swapping.

“What kind of commitment is this, if I have to walk through

fire to use them?” one executive in the Baltics said. “These commitments do not cost Gazprom anything…Gazprom should be punished.”
For Bulgaria, almost wholly dependent on buying Russian gas under a contract that runs until 2022, the stakes are high and the clock’s ticking.
A speedy deal is the priority for the EU’s poorest nation.

The country’s independent energy regulator said it hoped a settlement would allow to renegotiate contracts pegged to oil prices before next winter.
If not, it said hot water and heating bills would rise by up to 35%, squeezing households and industries.

Lebanon Starts Offshore Energy Exploration, Defying Israel



Lebanon has started exploration of oil and gas at its offshore energy reserves in the Mediterranean waters disputed by the Israeli regime.

Lebanon’s Energy and Water Minister Cesar Abi Khalil said in a televised statement that the exploration project for the country’s first oil and gas reserves began on Tuesday after Lebanese officials approved a plan submitted by a consortium of France’s Total, Italy’s Eni and Russia’s Novatek.

Khalil expressed hope that Lebanon would launch the second phase of offshore licensing by the end of 2018 or early 2019.

The announcement came after months of tensions between Lebanon and Israel over the disputed energy reserves.

No immediate reaction has been observed on the part of Israeli officials.

In December 2017, the Lebanese government granted licenses to a consortium of three international companies to carry out exploratory drilling in Lebanon’s Block 4 and Block 9 territorial waters and determine whether they contain oil and gas reserves.

Israel lashed out at the three international firms for making “a grave error” by accepting the offer. Israeli minister of military affairs Avigdor Lieberman warned that Lebanon would “pay the full price” should another war erupt between the two sides.

Lebanon, however, was quick to respond to the blatant threat, with Energy Minister Abi Khalil pledging that Beirut was going to push ahead with its exploration plans.

Lebanese President Michel Aoun also vowed to use all the diplomatic powers vested in him to resolve the dispute, saying the country had a right to “defend its sovereignty and territorial integrity by all means available.”

The territorial dispute between Israel and Lebanon runs over 776 square kilometers (300 square miles) of waters claimed by both sides.

The underlying Levant basin of the Eastern Mediterranean has been proven to contain large natural gas reserves and maybe even crude oil.

Israel itself has long been developing a number of offshore gas deposits in the Mediterranean Sea, with the Tamar gas field, with proven reserves of 200 billion cubic meters, already producing gas, while the larger Leviathan field is expected to go online in the coming months.

A source close to Israeli Prime Minister Benjamin Netanyahu said in 2012 that Israel's natural gas reserves were worth around $130 billion. A Businessweek estimate later that year put the reserves' value at $240 billion.

Israel relies heavily on gas. According to estimates by the Israel Natural Gas Lines, the Israeli-occupied Palestinian territories consumed around 9.5 Billion Cubic Meters (BCM) in 2016. The number is expected to reach 10.1 BCM in 2018.