The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Source: Gazprom to Cut Gas Price for Europe in 2013

By The Moscow Times

December 18, 2012

Under pressure from customers and competitors, Gazprom is likely to cut long-term contract prices for Europe next year to levels comparable to those in the spot market, a source at the company said.

The price of the natural gas Gazprom sells to Europe on long-term contracts could fall from over $400 to about $370 per 1,000 cubic meters in 2013.

"This [price] is a base-case scenario. The forecast is subject to change during the course of the year," the source said Tuesday.

It would equate to a spot-market price of about 26 euros ($34) per megawatt-hour. That's below the current German spot gas price of more than 27 euros a megawatt-hour and still slightly below price levels for gas to be delivered next summer.

"It puts Russian contracts into the money for summer, so they should export at top [capacity]," one gas trader with a German utility said.

Gazprom is Europe's biggest supplier of natural gas, providing about a third of its needs. The company is keen to defend its dominant position because it depends on European revenues, which account for about 80 percent of its income.

The source said gas exports to Europe are expected to increase to from just over 140 bcm to 152 bcm next year. That estimate came in below forecasts due to sluggish demand.

In 2011, the price was $390 per 1,000 cubic meters, and Gazprom said earlier this year that its average price for 2012 was likely to be $405 to $415 by the end of the year.

At almost 30 euros per megawatt-hour, this year's price is higher than that given in even the most expensive winter contracts in Germany's spot market, where levels currently do not exceed 29 euros a megawatt-hour.

Europe's gas demand has declined because of its economic slump, energy-efficiency drives and competing fuels in its main market, Germany.

Because of these developments, Gazprom has been under pressure from customers and competitors to cut its prices.

Norway's Statoil, Gazprom's biggest rival to supply Europe with gas, said earlier in December that it expected the majority of its supplies to be sold under spot-market pricing models in future.

Prices in long-term contracts to supply gas via pipeline have historically been pegged to oil prices because both fuels used to be produced by the same exporters and were often used in the same industries.

Oil has remained expensive despite the economic downturn.

European utilities that rely on imports of piped gas have been selling gas to customers at retail prices, which are linked to the freely traded and lower-priced spot market.

As a result of this profit squeeze, many utilities have sought to renegotiate their contracts with suppliers such as Statoil and Gazprom, seeking a higher share of spot-market indexation in their supply deals.

Adding to the price pressure, the European Commission opened an investigation in September into allegations that Gazprom was abusing its dominant position in central and eastern European gas markets.