

Prospects for Gas Deal With China Dim During XI Visit

By [The Moscow Times](#)

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Prospects are dim for a Russia-China pipeline gas deal this week during a visit to Moscow by China's new president, Xi Jinping, as each side remains unmoved by the other's demand for price concessions, gas industry sources said.

"We expect that our positions will converge on the contract terms," Gazprom spokesman Sergei Kupriyanov said. "We are not preparing to sign anything."

Russia and China appear to be natural partners when it comes to trade in raw materials, but they have failed so far to seal a gas supply deal over nearly two decades, largely because Russia will not cut its prices to levels within reach of Chinese end-users, who are highly sensitive to input cost inflation.

A Russian gas industry source said the Chinese price position remained fixed at \$250 per thousand cubic meters, while Gazprom's price demand hovered around \$300, although its

hand has been weakened by falling prices around the world in the wake of the U.S. shale revolution.

The new Xi presidency is seen as a chance for a fresh start in the talks, but there is no sign the two sides have overcome the domestic and diplomatic obstacles that stand in the way of a deal.

In the meantime, rivals to Gazprom, including state oil giant Rosneft, which has substantial gas reserves of its own, have seized the initiative and are making a play for Asian customers with plans to export liquefied natural gas.

Rosneft has been more successful than Gazprom in negotiating with Chinese buyers. In 2008, it secured a \$25 billion loans-for-oil deal to finance construction of the East Siberia-Pacific Ocean pipeline (ESPO), which now supplies China and other Asian customers with crude.

That deal was bolstered by an earlier agreement to give China's Sinopec access to Russia's onshore oil reserves through a partnership with Rosneft at a regional producer, Udmurtneft.

Russian Energy Minister Alexander Novak has expressed support for a loans-for-gas deal to help finance fields and pipeline construction closer to the Chinese border, along the lines of the loan won by Rosneft.

On Friday, Novak told reporters that Russia was working on plans to increase oil and gas supplies to China ahead of Xi's visit but declined to comment on prospects for deals.

"This issue is still in the development phase," he said, then declined to comment on prospects for deals. "We'll tell you in a week."

Rosneft appears keen to boost supplies as soon as possible by using a pipeline that crosses Kazakhstan to deliver crude oil, possibly by swapping Kazakh crude oil delivered at the border for equal volumes of Russian crude.

Novak said the government was considering an increase in crude oil supplies to China through the branch of ESPO that carries oil to the Chinese border but was not looking at increased supplies via Kazakhstan.

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