The Moscow Times
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Gazprom Pipe Purchases Criticized as Non-Competitive

By Anatoly Medetsky

April 03, 2013

Gazprom's market value slid below $100 billion Tuesday for the first time since the post-crisis low in 2009 as the gas giant reported a decline in profit.

The antitrust watchdog is swooping down on Gazprom and its well-connected pipe supplier with an investigation of their huge deals over past few years.

Federal Anti-Monopoly Service chief Igor Artemyev announced the move Wednesday, saying the world's biggest gas producer and the North European Pipe Project restricted competition.

Controlled by President Vladimir Putin's former judo partners, brothers Arkady and Boris Rotenberg, the pipe supplier accounts for a hefty share of Gazprom's pipes for long-distance gas links.

Both companies, which could face fines if found guilty, denied any wrongdoing Wednesday.

"The company's business is transparent," the pipe supplier's chief Alexander Muratov said in a statement. "Most Western oil and gas companies use the services of organizations similar to North European Pipe Project."

The company acts as an intermediary between the gas behemoth and individual pipe makers, which enables it to meet Gazprom's requirements of large quantities in its purchasing contracts.

The investigation comes after Putin said during an investment conference last fall that the authorities should look into any suspected violations at Gazprom.

Gazprom's record acquisitions of the large-diameter pipes in question — 2.2 million metric tons — occurred in 2011. Interfax reported that North European Pipe Project accounted for at least 60 percent of the volume.

The companies did not disclose the price of the deals, but Muratov said it was 20 percent lower than it would have cost to buy foreign-made pipes.

The antitrust service chief didn't comment further after he made the investigation public at a business conference.

Another Federal Anti-Monopoly Service official, Maksim Ovchinnikov, said the agency suspected that Gazprom abused its dominant position on the market by requesting super big deliveries in one contract, Interfax reported.

The regulator may hit the pipe supplier with a fine measuring from 1 percent to 15 percent of its annual sales, Ovchinnikov said.

Gazprom could face a similar sales-related penalty or a fine amounting to 100,000 rubles, he said. The agency could also choose to base the value of the punitive measure on the company's purchases of the pipes, rather than its gas sales, he said.

The Federal Anti-Monopoly Service last month completed a review of the pipe market, concluding that pipe makers didn't collude to fix prices. It recommended then that Gazprom change its purchasing policy to allow individual companies to bid for its contracts.

The agency noted coordination among the pipe producers in manufacturing the product but conceded it was necessary to recoup investment in a business that was nonexistent a few years before.

Gazprom will need wide pipes for its future pipelines in the Far East and if it follows through with the plan to build the South Stream link to Europe under the Black Sea as part of an international consortium it leads.

Investors have criticized the company for the ambition to build pipelines to Europe — like the Nord Stream it completed in December — because the move does not match its declining sales on the continent. Gazprom's market value slid below $100 billion Tuesday for the first time since the post-crisis low in 2009 as the gas giant reported a decline in profit.

President Vladimir Putin on Wednesday ordered that Gazprom come back to the project to build another overland link to Europe, the second phase of the Yamal-Europe pipeline.

The effort will make deliveries to Poland, Slovakia and Hungary more reliable, he said in a meeting with Gazprom chief Alexei Miller. The pipeline would also cross Belarus.

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