

Long-Awaited Russia-China Gas Supply Deal Eludes Putin in Shanghai

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China's President Xi Jinping (LEFT) and his Russian counterpart Vladimir Putin inspect the honor guard as they attend a ceremony to open the Chinese-Russian joint naval drills in Shanghai on Tuesday.

Among the major deals sealed on Tuesday during the first day of President Vladimir Putin's visit to China, the most hotly anticipated was conspicuously absent — a 30-year gas supply contract worth an estimated \$400 billion that would have marked Russia's arrival on the Chinese energy market.

State-owned gas giant Gazprom has been negotiating to supply at least 38 billion cubic meters of gas per year to China for a decade, and just prior to Putin's visit state and Gazprom officials said the deal was 98 percent ready.

The only part of the agreement left hanging was the base price — "one digit," Gazprom CEO Alexei Miller called it on Monday — but it still remained unsolved on Tuesday. Putin's spokesman Dmitry Peskov told reporters in Shanghai that the sides had not yet agreed on the

issue, meaning the contract was not signed.

But Peskov would not abandon hope: "The visit is not over yet. Talks will continue ... substantial progress has been made," he said, Reuters reported.

The contract may be signed at "absolutely any moment," Peskov added, suggesting that the deal could be clinched on Wednesday, the last day of Putin's visit to China.

In an interview with Bloomberg television earlier this week, Prime Minister Dmitry Medvedev said gas to China would be sold at the price close to what Europe pays, which was on average \$380 per 1,000 cubic meters last year. Analysts have long surmised that the sticking point in Gazprom's negotiations with China was China's insistence on paying a much smaller price than Gazprom's European customers.

Medvedev also said that Russia's interest in supplying gas to China had nothing to do with political tensions with the European Union over Ukraine, but was about diversifying into new markets.

"I would not look for politics behind [this deal] but supplies to the Asia-Pacific region are the future, there is no doubt about it," he told Bloomberg.

Russia's interest in supplying China with energy resources is understandable, said Kyle Davis, partner and energy specialist at international law firm Goltsblat BLP — China is the world's biggest energy importer.

But there is a big difference between supplying gas to China and exporting it along the already established routes to Europe, he said.

"Firstly, export infrastructure for the European market is already built and — with the exception of the newer Nord Stream pipeline to Germany — the capital costs have been recouped. Chinese exports will require transportation infrastructure on both sides of the border, as well as upstream investment in Russian production closer to China," Davis said.



Alexei Druzhinin / Reuters

Russian President Vladimir Putin meeting with former Chinese President Jiang Zemin in front of an idyllic waterfall scene in Shanghai on Tuesday.

Issues like prepayment, infrastructure costs and control over transportation pipelines, as well as take-or-pay-provisions and, of course, the price formula will likely keep the parties from signing this deal, he said, adding that while Europe does not have a ready alternative for Russian gas, China is not yet dependent on energy supplies from Russia and may be just inclined to keep it that way.

At the same time, Russia reached supplementary agreements on Tuesday that may bring the signing of the main gas deal closer.

Putin offered to scrap extraction taxes for gas supplies designated for China, and his Chinese counterpart said Beijing could abolish import taxes for Russian gas.

But despite this, the agreement was not signed Tuesday, bringing Gazprom shares down 2.2 percent in Moscow at the close of trading.

But the deal-making day was not fully lost — Putin presided over the signing of a number of major contracts between Russia's state-owned and private companies.

Privately-owned Russian gas producer Novatek finalized a deal to supply China's CNPC with 3 million tons of liquefied natural gas annually for 20 years from their joint Yamal LNG project in Russia's north, and Russian state-owned development bank Vneshekonombank signed an agreement with Export-Import Bank of China, giving the Russian bank a \$500 million credit line to finance projects in Russia.

Russia's En+ group and Chinese coal miner Shenhua Group signed an agreement to develop a coal field in Zabaikalsky Krai in Siberia. The amount of investment in the project was earlier estimated at 30 billion rubles (\$868 million).

Overall, more than 40 contracts are planned to be signed before Putin leaves China on Wednesday.

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