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GAZPROM IN TALKS OVER NEW CHINA PIPELINES ENERGY

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BEIJING

Gazprom, Russia's gas giant, is negotiating with China's largest energy company to build two pipelines to transport up to 60bn cubic metres across the border annually.

Alexander Medvedev, Gazprom's executive in charge of exports, said in Beijing yesterday the talks with CNPC, the Chinese oil major, were aimed at identifying which of two routes should take priority, and the timing of the start of any deliveries.

"We are in the initial stages of negotiations," he said.

CNPC is China's largest oil producer but has also been rapidly building a dominant local position in the gas market, with output increasing 23 per cent year-on-year in the first six months of 2005.

The two routes being studied by Gazprom and CNPC are from eastern Siberia to China's north-east, or westwards through Xinjiang to link up with an existing pipeline.

"We don't like it when pipelines are lying empty . . . so we should identify which is the priority project," he said. Mr Medvedev said the Russian and Chinese sides would each be responsible for building the sections of the pipelines in their respective countries.

But he added that the Russian firm would also be interested in investing in infrastructure in China, if the government allowed it.

"Our experience in Europe is that infrastructure ownership is the key to reliable supplies," he said.

Although Mr Medvedev declined to discuss the issue in detail, the price of the gas is certain to be a big issue in any negotiations over long-term supply contracts. Natural gas prices, along with oil, have risen rapidly over the past year.

He said any price of the resource sold into the Chinese market would have to take into account the "realities" of the international market for gas and LNG.

Gazprom, along with a number of foreign companies, pulled out of Petrochina's west-east

pipeline after disagreements with the Chinese company over price, and reluctance on the part of the Chinese to allow foreign involvement in the project.

However, Gazprom, which is Russia's monopoly gas exporter, brings a much greater leverage to the table in this deal, as it controls the resource.

Mr Medvedev said Gazprom would consider in the future supplying LNG to China from a project in the Sakhalin Islands and was also interested in investing in power plants in the country.