

# EU Bites the Hand that Feeds It; Gazprom Will Bite Back

JEN ALIC, Oilprice.com

By JEN ALIC, [Oilprice.com](http://Oilprice.com) [1]



Gazprom has Europe's natural gas market in a stranglehold and Europe is attempting to fight back, first with a raid last year on the Russian giant's offices and then with a probe launched against its allegedly illicit efforts to control the EU's natural gas supplies.

The bottom line is that the same natural gas revolution in the U.S., which was enabled by hydraulic fracturing (fracking), is now threatening to loosen Gazprom's noose on the EU, and Gazprom simply won't have it.

To head off a potential natural gas revolution in the EU, Gazprom is pulling out all the stops, and EU officials say that the company has been illegally throwing obstacles in the way of European gas diversification.

Poland's situation is a case in point. Last year, a U.S. Department of Energy report estimated Poland's shale gas reserves at 171 trillion cubic feet. Gazprom got nervous. In March this year, the Polish Geological Institute suddenly felt compelled to contradict that report, saying reserves were only around 24.8 trillion cubic feet. In June, Exxon announced it would pull out of its shale gas projects in Poland. Investors started getting cold feet and shares began to drop. Chevron and ConocoPhillips are plodding along with their shale gas operations, for now.

Still, 24.8 trillion cubic feet is no paltry volume and enough to ensure that Gazprom remains nervous. And then there is Ukraine, which also has sizable shale gas reserves and where the Russian noose is even tighter.

Right now, the only thing keeping the shale gas revolution from hitting Europe as it has in the U.S. is technology: the shale reserves in Europe are on land that is more inaccessible, there is a lack of necessary infrastructure and fracking equipment, and protests against the environmental impact of fracking are more serious. But the biggest problem is Gazprom.

EU governments are both desperate to break the Russian stranglehold by developing shale gas reserves and wary of going up against a gas giant on whom

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they depend for supplies. It's a tough position and the outcome will depend on how the EU hedges its bets: Can it develop enough shale gas reserves quickly enough to take on Gazprom?

[Poland](#) [2] is still a long way off from being able to fully develop its shale gas reserves. It will take time to conduct the necessary environmental impact studies and infrastructure would require a major overhaul.

The EU publics are divided between those who fear fracking and those who fear Gazprom, and so far, the former fear is trumping the latter. France and Bulgaria have both banned fracking under pressure from the public, but Poland is marching on, its officials relentlessly insisting that fracking is safe.

Recently, Germany's Environmental Ministry [urged](#) [3] a ban on fracking near drinking water reservoirs and mineral springs, and called for environmental impact studies from developers, prompting concerns that Germany will tighten fracking regulations. Germany has massive natural gas potential, but environmental concerns are keeping a tight rein on development for now.

The end victory for Gazprom would come in the form of a European Commission ruling banning fracking — a ruling which would be applied to all EU countries, including Poland, which has shown more political will to stand up to the Gazprom boogey man than others.

In the meantime, the EU is investigating Gazprom's actions in eight countries — Bulgaria, Estonia, Latvia, Lithuania, Slovakia, Poland, Hungary and the Czech Republic. In Bulgaria, where fracking has been banned, Gazprom is the only supplier of gas. It is also the sole supplier to the Baltic states and Slovenia. It supplies over 80 percent of gas needs to Poland and Hungary, and nearly 70 percent of the Czech Republic's.

It has strengthened its grip on Europe further due to the fact that it owns the one-way gas pipelines into the region and forces buyers into long-term contracts in which prices are tied to oil.

The EU has tried numerous tactics to loosen the Gazprom grip, including the implementation of new energy policies designed to separate supply from delivery and by seeking new pipelines that could deliver gas from elsewhere. While the EU's alternative pipeline dreams have largely failed so far, it is eyeing developments now in northern Iraq, where Turkey is courting the Kurds to build a new pipeline that could eventually deliver gas to EU markets. But, this is a long way, and possibly a war, off.

Having failed so far in the area of alternative suppliers, the EU is now moving the front lines of the battle to the legal field, targeting unfair competition, which it stands a better, but still only minimal, chance of changing the rules of the game. The probe into Gazprom is looking at three things: Gazprom's attempts to hinder the free flow of gas across the EU; its purposeful blocking of diversification efforts; unfair pricing and contractual arrangements.

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Specifically, the EU says Gazprom has implemented a strategy to segment national markets by preventing gas exports and limiting delivery options, as well as by obligating buyers to use Gazprom infrastructure. Most significantly to the consumer, Gazprom's pricing policies, which fix gas prices to oil prices, mean that European consumers see no benefit from the natural gas revolution in the U.S., which has increased global supplies and reduced prices on the open market.

Will the EU be able to actually levy fines for unfair competition and unravel the monopoly? Not unless it plays as dirty as Gazprom, which will simply cut off supplies and the circulation of those European countries that used to be in its backyard. Eastern and central Europe will be the ones to pay the price for the European Union's battle.

Let's not pretend that energy companies are clean and that governments aren't using them to forward nefarious geopolitical objectives (U.S. multinationals in northern Iraq, for instance). The point is not to paint Gazprom as the ultimate evil in energy. This is about Europe, and the EU's *Mommie Dearest* struggle with Gazprom, which is undoubtedly playing an underhanded energy-politics game worthy of the most sinister of accolades.

One would not be surprised to discover that Gazprom has gone environmental and has had a hand in shaping the environmental concerns of the EU publics. As such, it is highly convenient that Gazprom has recently come under very [public attack](#) [4] by our leading international environmental group. Everyone plays dirty, any means to an end.

*What's your take? Please feel free to comment below!*

Source: <http://oilprice.com/Geopolitics/Europe/Europe-Has-Had-Enough-But-Can-It-Stand-Up-to-Gazprom.html> [5]

**Source URL (retrieved on 04/26/2015 - 9:03am):**

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[3] <http://www.bloomberg.com/news/2012-09-06/germany-urged-to-ban-shale-gas-fracking-near-water-reservoirs.html>

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