Co-operation is inevitable: Part 2


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Yuriy Shafranik, former Russian Fuel and Energy Minister, concludes his interview with Rossiyskaya Gazeta

By Maxim Makarychev/RG

RG: You mentioned Central Asian gas and the Caspian Pipeline project, which has had a mixed response in Europe.

Yuriy Shafranik: Consumers seek diversification. But we, the gas-producing countries, seek a unified policy. Imagine how it would be if all the producing countries (Uzbekistan, Azerbaijan, Turkmenistan, Kazakhstan, Iran, Iraq etc) had pipelines. And all the pipelines went to Europe. What would happen? The producers would get a low price once again. The best option for the producer is a concerted policy on volumes, prices and markets. The Caspian Pipeline, reconstruction of the Central Asia-Centre Pipeline and increase of its capacity are a first step. The second is to agree a fair gas price for Turkmenistan, Kazakhstan and Uzbekistan. And, of course, a unified gas policy in Europe. That is not blackmail, but fair pricing – financial return to the producer. And, I emphasise, it is the way to achieve timely commissioning of new fields. Volumes brought on tap in the last 15 years and more have been inadequate – we are behind schedule.

The alternative will leave us unable to supply the planned additional 150bn cubic metres to market in 10 years' time. And then European (and Russian) consumers will start to say: they are withholding gas, limiting output, dictating terms. Is that a situation we want to see?

How, in the short term, do you see the situation developing? Will there be an aggravation of the situation, or will there be a constructive discussion?

Further aggravation is possible. Markets are not won in a day. There is always a fight. On the other hand, it is best to avoid provocative statements. President Putin has already made all the political points, which need to be made. Everything else needs to be done in the right order, without undue haste, including working on public opinion.

We have every right to ask: what is Russia being accused of? If 26pc of supplies is not enough, how much is? And at what point does Europe become dependent? Show us the figures of how much Ruhrgas has earned from our gas and from its customers. I think that it makes sense to switch at least part of that money directly to the producer. That is the global trend. Production markets should become global. That money needs to be invested in Yamal, the Shtokmanovskoe gas deposit, and East Siberia… through the producer.

The producer should earn and invest in production. He should obtain credits based on that income, since long-term credits with the consumer give access to bank money. It does not mean that the producer has to deliver every cubic metre of gas right to the consumer. But the producer should be able to feel the market, have objective access to that market in the interest of the consumer.

It has to be shown that, at present, money is being taken from the producer and where that money goes. It is being taken by intermediaries. Part of it is accruing to the countries where they are located in the form of tax, and part is being invested in new production, but it is not coming back to the producing countries. If the money is not coming back to the fields, where are we going to get the gas from? That question needs to be asked in Europe.

For the sake of objectivity, if they will not listen to Russia, they should look at the conclusions of the International Energy Agency, which give an answer.

Do you think that Gazprom will have a hard time in the UK?

Gazprom has its troubles everywhere.

What is the outlook for other types of fuel, for biofuel for example?

As of today the basic positions are fairly clear. The hydrocarbon cycle will continue for at least 40 or 50 years. Oil and gas will meet demand for at least 25 years. Their consumption has grown, but the quantity of discovered reserves is undiminished. Undoubtedly, technologies are becoming more complex and new alternative fuels are appearing. New sources of energy are needed, particularly renewable sources. Biofuels can supply a few per cent of total volumes. But I believe that attempts to produce biofuels in quantities, which represent competition to hydrocarbons, are doomed. The problem cannot be solved that way.

What are your forecasts for oil prices in the near future?

The world has experienced high oil prices twice in the last 25 years. In 1979-1983, the price was $38 per barrel, about $74 at today's prices. A year ago the price approached $72-$74 once again. Provided there is no *force majeure* in the Iran situation, the price will not go beyond that level for the moment, because international reserves are sufficient as regards volumes, delivery methods and availability of alternatives – energy saving, energy efficiency and alternative sources of energy.

But doesn't Russia want high prices?

Our country needs stable, predictable, fair prices. A price for oil at $30 would be enough to cover production and transportation costs. But world demand has gone further. The world economy has accepted these high prices and continues to develop – there is no stagnation. That is visible in the USA, which is the biggest oil consumer. So the conclusion has to be that oil prices 20 years ago were artificially low.

Russia remembers that period well and does not wish to see it repeated. After 1983 we produced more, but low prices meant that the USSR had run up huge debts by 1990. History gave us a lesson we will not forget.

Coming back to the propaganda campaign against Russia. We have seen something similar in the past. At the time when our companies were being restructured, there was talk in Europe about the danger of supply interruptions and about inability of Russia to deliver such volumes. But Russian oil export deliveries even increased. And there is not reason to believe that structural changes in the oil and gas sector will cease to occur.

Rousing fears and stirring up phobias is harmful to both Russia and Europe – harmful to our relationship. This is an instance where both sides – European consumers on one hand, Russia and other CIS producing countries on the other – need to understand that, as a rule, the most dangerous enemy is inside ourselves. The questions of how much to produce and how to reach the consumer are common to both sides. The question of who reaps advantages from spreading fears is a question each of the sides has to answer.

I have hinted at the answer as regards Europe. But in Russia we have yet to find the enemy within. Once we have understood for ourselves how matters stand, we need to take corrective measures, and then develop our cooperation further.