

German-Russian energy deal worth billions

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At the beginning of October, Germany's largest oil and gas producer Wintershall and Russian natural gas producer Gazprom finalized an asset swap worth billions.

The deal will allow Wintershall, a full subsidiary of BASF, the largest chemical company in the world, to gain access to natural gas fields in Siberia. The state-owned Gazprom will gain more influence in the western European gas market. The deal was first announced five years ago, but was suddenly called off at the end of last year due to the crisis in Ukraine.

Gazprom and Wintershall, as well as several other European energy companies, are working together on the construction of the Nord Stream-2 pipeline. By 2019, the \$11 billion project will double the capacity of the Nord Stream-1 pipeline, which opened in 2011.

Along with economic aims, the deal between Gazprom and Wintershall, as well as the development of Nord Stream, have political objectives. "Even in politically difficult times, we must build bridges—not keep tearing them down," Wintershall CEO Mario Mehren told *Handelsblatt*. He added, "We believe this decision can serve as a signal of mutual trust and cooperation."

Both projects are exacerbating tensions with the US and within the European Union. They have met with harsh criticism in Eastern Europe and from Ukraine in particular. Despite this, the German government has already signaled its approval. According to the Federal Ministry of Economics, which had already agreed to the planned deal in 2013, a further assessment of the agreement is not necessary.

As part of the asset swap, several joint ventures with Wintershall will come under the full ownership of Gazprom. The Russian corporation will take over the gas distribution companies WINGAS, WIEH (Wintershall Natural Gas Trading House Berlin) and WIEE (Wintershall Natural Gas Trading House Zug),

and will acquire shares of the gas storage service astora. As a result, the role of Gazprom in the German gas market will be greatly increased.

Gazprom will also acquire a 50 percent share in the North Sea operations of Wintershall in Norwegian, British and Danish waters. British politicians have sharply criticized this part of the deal and will attempt, wherever possible, to reverse it.

In return, Wintershall will expand its activities in Siberia. It acquires the right to two blocks of the so-called Achimov formations in the Urengoy gas field, one of Russia's most important production fields. All together, Wintershall will now hold 25 percent of the gas operations at the Urengoy field.

According to a report in *Die Presse*, the Austrian oil and gas company OMV also plans a billion-dollar asset swap with Gazprom. OMV, like Wintershall, German energy company E.ON, French utility company Engie, and British-Dutch Royal Dutch Shell, has a 10 percent stake in the Nord Stream-2 project, of which Gazprom will control 51 percent. The chairman of Nord Stream's shareholders committee is former German chancellor Gerhard Schröder.

The Nord Stream pipeline runs beneath the Baltic Sea and delivers gas directly from Russia to Germany. It bypasses Ukraine and transports Russian natural gas directly into the EU. It increases the importance of Russian gas for the European energy supply and strengthens Germany's position as an important gas transit country.

Wintershall has been the most important European partner of Gazprom since 1990 and, through various joint ventures and shared pipelines, has played a significant role in strengthening the position of state-owned Russian corporations in the European gas market. Following the dissolution of the Soviet Union, Wintershall was the first international business to gain direct access to natural gas and oil operations in Russia.

In his book *Germany, Russia, and the Rise of Economics*, American political scientist Stephen F. Szabo, who works for various Washington think tanks, pointed to Wintershall as one of the most important German lobbyists for closer collaboration with Russia. The former CEO of Wintershall, Rainer Seele, has been head of the German-Russian Chamber of Foreign Trade for several years, and since last spring has been CEO of the largest Austrian energy company, OMV.

The dealings with Wintershall and OMV strengthen the position of Gazprom in the European energy market. The Russian gas monopoly is confronted with growing competition from gas supplies in Algeria, Norway and Qatar, and has lost market share in recent years.

The large-scale pipeline project South Stream, which would have bypassed Ukraine and transported gas to Europe through the Black Sea, was systematically torpedoed by the EU Commission and ultimately cancelled.

Turkish Stream was to have taken the place of South Stream. But negotiations with Ankara have stagnated and are now threatened with complete collapse because of the conflict in Syria.

The “turn towards the East” announced by the Kremlin, intended to offset the diminishing importance of Russian energy exports to Europe, also came to nothing. There are still no definitive agreements on the construction of two large gas pipelines to China, and many analysts doubt whether Gazprom is even in a position financially to implement such large projects, due to sanctions imposed after the coup in Ukraine and the Russian annexation of Crimea.

In light of this situation, collaboration with European corporations has taken on greater importance for Gazprom. Sanctions imposed by the West have led to severe financial losses. Market capitalization has fallen from \$367 billion in 2008 to \$51 billion in August 2015.

The financial problems have far-reaching consequences for the entire Russian economy. Gazprom revenues account for approximately one-fourth of the Russian national budget. Thanks to Western sanctions, the Russian economy is sinking ever more deeply into recession.

The collaboration of European energy companies with Gazprom has led to conflicts between the German

government and the EU Commission. The latter has repeatedly distanced itself from Nord Stream-2 and stressed that the pipeline must still “be tested” to determine whether it complies with EU laws for the energy sector. German finance minister Wolfgang Schäuble, however, has proposed to limit the powers of the EU Commission in antitrust law. In 2013, the EU Commission launched antitrust proceedings against Gazprom to curb the influence of Russian companies in the EU’s energy market.

Nord Stream and German-Russian energy cooperation have been vehemently rejected by Ukraine, Poland and the Baltic states especially. Polish President Andrzej Duda and Ukrainian Prime Minister Arseniy Yatsenyuk have sought to stop the project.

Duda called the pipeline a “geopolitical project” and a “threat” to Poland, Ukraine and the Baltic states. Poland has been working hard to reduce its dependence on Russian gas supplies and to this end, on October 12, opened a terminal in Ustka, on the Baltic coast, for liquid gas from Qatar.

Tensions between the US and the EU have also been aggravated by the energy issue. While European energy companies have deepened their collaboration with Gazprom, the US has expanded its sanctions against the Russian energy sector.

In August it imposed sanctions on operations in the Yuzhno-Kirinskoye oil field on the Sakhalin Island in the Pacific. Gazprom can no longer obtain equipment for work in the field from abroad.

Among other things, the field supplies gas for the Sakhalin 2 liquid gasworks, which Gazprom operates together with the British-Dutch owned Shell, and serves as a source of raw materials for a new gas pipeline to China. The Russian economic newspaper *Kommersant* called the sanctions against the field not only a blow against Gazprom, but also against Shell. According to *Kommersant*, the sanctions are intended to discourage European business from cooperation with Russian companies.



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