Russia’s state-owned natural gas company OAO Gazprom and the European Union’s antitrust authorities are aiming to agree as soon as the end of October the terms of a settlement that would force changes to the way the company operates, according to people familiar with the matter.

Gazprom executives, Russian government officials and the European Commission, which is the bloc’s antitrust regulator, are expected to hash out the final details of the agreement in a high-level meeting at the end of the month, one of the people said.

The Russian government, which controls more than 50% of the company’s shares, has been actively involved in the settlement discussions, which are aimed at addressing the EU regulator’s long-running concerns that the energy giant harms competition and charges unfair prices in several Eastern European countries.

A settlement could help the company avoid billion-dollar fines in exchange for changes to the way the business operates. The discussions, however, could still go awry and no final plan has yet been signed off, the people stressed.

If the terms of the settlement are agreed, the plan would then have to be presented to the other countries affected by the case–a process that could take weeks.

The closing of the talks in the EU’s antitrust case comes as tensions mount between Russia and the West after a diplomatic breakdown over Moscow’s bombing of the Syrian city of Aleppo.

The EU’s handling of the Gazprom case has been swayed by diplomatic considerations in the past.

The EU’s initial probe into Gazprom stems from September 2011 and formal proceedings were opened a year later—well before the conflict in Ukraine ignited. In early 2014, EU regulators and Gazprom officials had been heading toward a settlement. But when Russia annexed the Crimean peninsula in March 2014, and talks subsequently stalled, the EU held off on filing charges, worrying that they would rile the Kremlin at a sensitive time.

Then last April, with its new Competition Commissioner Margrethe Vestager in charge, the EU filed formal charges against Gazprom.

The regulator alleged the state-controlled company breached the EU’s antitrust rules in eight countries where it is the dominant gas supplier—Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland and Slovakia. The commission said restrictive terms in Gazprom contracts forced territorial constraints on customers, for instance by prohibiting them from re-exporting gas to another country. It also objected to Gazprom’s practice of

tying the price of gas to that of oil.
While Gazprom has denied any wrongdoing, its management moved quickly to start settlement talks after the formal charges were issued last year.
As part of the agreement with the EU, Gazprom would have to untie the price of gas to oil. While the price of oil has plummeted in recent years, thereby also depressing gas revenue for Gazprom, it could always regain momentum in the future, raising costs for gas customers.
Some points in the settlement talks are still open. The commission has expressed willingness to allow Gazprom to charge customers different prices when customers want their gas exported to a different national market than originally agreed in the contract, the person said. But the EU and the company are still negotiating over how to calculate those prices.
When the commission presents the settlement plan to the other relevant countries, some nations could push back against the terms of the settlement if they deem them too favorable to the Russian state-owned gas giant.
source: energyworldmag.com