Gazprom sees bigger domestic losses

Existing local prices still do not cover costs, despite a recent hike in tariffs

By Eduard Gismatullin
Bloomberg

Gazprom, the world's No. 1 natural gas producer, expects its loss on domestic gas marketing will widen 19 percent to 50 billion rubles ($1.6 billion) as Russia caps prices to subsidize industry and households.

Russia caps domestic gas prices at about one-fifth of the European level to subsidize its producers and population. Chief Financial Officer Boris Yurlov in June said Gazprom's loss on domestic sales could total 12 billion rubles, compared with 42 billion rubles last year.

Gazprom, which controls a fifth of the world's gas reserves, is pushing the government to raise prices so the company can invest to end two years of output declines.

The sudden jump in expected losses on domestic sales is hard to reconcile with the price increases granted this year, analysts said.

"The main question is what happens to the cash received from domestic marketing because the company's first-half sales fell by almost 7 percent even as prices rose," said Valery Nesterov, an analyst at Troika Dialog brokerage.

Russia raised gas prices by about 25 percent this year, faster than inflation, which was running at 15 percent, Nesterov said.

The company's six-month domestic sales revenue fell to 65.1 billion rubles, he said, citing a Gazprom earnings report.

The company plans to supply 320 billion cubic meters of gas to Russian customers this year. Domestic gas deliveries will increase 0.6 percent next year as the company plans to raise output 1.9 percent to 531.7 billion cubic meters.

"Existing gas prices for domestic customers do not cover Gazprom's spending on production, transportation, processing and marketing," the company said in a statement e-mailed to news wires.

Gazprom invested 98.5 billion rubles in projects, where about a third was spent to maintain production, in the first nine months of the year, the company said in its statement. Russian customers' debts to Gazprom fell 11 percent to 38.9 billion rubles over the first nine months.

Gazprom expects exports, which generate 80 percent of revenue, to fall by a sixth this year to $12 billion after prices fell in the wake of declining oil prices last year. The company supplies Europe with about a quarter of its gas needs. ■

F A C T B O X

GAZPROM

RTS index: GAZPPE.RTS
Web site: http://www.gazprom.ru

World's biggest gas company (94% of Russia's gas production, 23% of the world output)
Produces about 8% of the country's GDP
Contributes about 25% of all tax revenues to the federal budget
A joint–stock company since February 1993 when state gas concern Gazprom was privatized.

SHAREHOLDERS:
- 38.37% of the shares owned by the state
- 10.31% of the shares owned by foreign shareholders

MANAGEMENT:
Chairman of the Board of Directors: Rem Vyakhirev
Chairman of the Management Committee: Alexei Miller

FINANCIAL RESULTS:

	H1 2002	H1 2001	Change
Earnings (bln rubles)	288.8	377.8	–24%
Net Income (bln rubles)	9.8	11.5	–15%

Decrease in indicators is a result of fall in gas export prices

OUTPUT Q1-Q3 2002:
Gas output – 380.9 billion cubic metres

In H1 2002 Gazprom's exports to non–CIS markets increased by 4.7%, to 85.2 bcm, while gas deliveries to CIS and Baltic states rose to 59.5bcm, which is 3.3% higher year–on–year. Gas supplies to domestic markets amounted to 223 bcm.

GAS EXPORT IN EUROPE IN H1 2002

COUNTRY	H1 2002 VOLUME, BLN M3	COST, BLN USD	%
Germany	15,97	1,56	20,64%
Ukraine	13,91	0,70	9,18%
Italy	10,73	1,14	15,08%
Belarus	5,97	0,17	2,26%
Turkey	5,89	0,59	7,82%
France	5,49	0,50	6,64%
Hungary	4,48	0,46	6,04%
Slovakia	3,97	0,39	5,20%
Poland	3,85	0,37	4,91%
Czech Republic	3,65	0,35	4,56%

St. Pete signs loan agreement

Prime-Tass

The city of St. Petersburg, U.S. Eximbank and major international bank HSBC have signed a final agreement on a $15 million loan to St. Petersburg to improve lighting in the city's schools, the press service of the St. Petersburg Finance Committee said Monday.

The seven-year loan will be provided at Libor plus 0.5 percent interest, the press service said.

A preliminary deal on the loan was signed in July by St. Petersburg's education committee and U.S. company Energy Smart, an Eximbank partner for energy-saving projects in Central and South America and Europe.

The city's education committee has approved a list of schools where lighting systems are to be improved.

Rare Russian cargo bound for France

Reuters

PARIS — A rare cargo of Russian feed wheat is due to be shipped to France, following on from imports from Ukraine last month, port sources said on Monday.

Although Russia and Ukraine have been shipping huge tonnages of wheat to the European Union this year, the bloc's leading exporter France has imported very little.

Data from French cereals office ONIC, which date back 20 years, show no record of Russian wheat arriving in France.

Port sources said the Hong-Kong flagged bulk carrier Lady Hamilton, carrying 24,773 metric tons of wheat, would dock at the Brittany port of Lorient from St Petersburg by the end of the week. It would then take two to three days to unload, they added.

The wheat, like the 25,000 tons of Ukrainian wheat imported last month, is destined for animal feed makers in the Brittany region. The compounders have also been buying British feed wheat, benefiting from prices below the domestic market.

Wheat from Russia and Ukraine has been flooding into the southern EU countries of Italy and Spain, where it has undercut other European producers, such as France and Britain.

The latest EU figures show wheat imports at over 7 million tons so far this season, way above exports of 3.03 million imported by this time last year and current exports, which total just 4.84 million tons.

The Russia Journal

RUSSIA plans to invest 126 billion rubles in its railways next year.

Railways Ministry sets '03 investment

The Railways Ministry plans to invest 126 billion rubles next year, including 121 billion of its own funds and 5 billion of borrowings, Railways Minister Gennady Fadeyev told reporters Monday, Prime-Tass reported.

The ministry's investment program will be discussed at a government session on Dec. 11.

Of the total, Fadeyev said that the ministry intends to invest 79 billion rubles in maintaining traffic safety systems, 9.4 billion rubles in providing power supply to railroads, and around 4 billion rubles in improving access to sea ports, Fadeyev said. He did not specify how the rest of the funds would be spent. This year's investment program amounts to 114.7 billion rubles, including 94 billion of the ministry's own funds. ■

Inflation forecast

Russia's 2002 annual cumulative inflation will be over 14 percent but less than 15 percent, Russian Deputy Economic Development and Trade Minister Arkady Dvorkovich told reporters Monday, Prime-Tass reported.

According to the ministry's initial plans, Russian full-year inflation was projected at 14 percent.

Russia's consumer price index (CPI) increased 1.6 percent in November, while cumulative inflation in January-November was 13.3 percent.

Dvorkovich said that the 1.6 percent rate of inflation in November was due to the underproduction of some goods.

He cited cereals as an example.

Buckwheat prices rose 11 percent in November, while buckwheat output fell 20 percent.

Dvorkovich also said that a one percentage point error in the ministry's plans should not be critical for economic growth.

"It's an admissible fault when inflation is standing at 10-12 percent," he said. ■

Kazak oil dispute is resolved

Reuters

ASTANA — Kazakstan and an oil consortium led by ChevronTexaco, TengizChevroil, have reached a compromise in a dispute over how to fund development of the huge Tengiz field, Energy Minister Vladimir Shkolnik said Monday.

The row had led Tengizchevroil (TCO) to suspend work on a $3 billion expansion program at the ex-Soviet, Central Asian state's flagship oil joint venture.

"We have found a mutually satisfactory scheme for financing the second generation project. We signed a document on it on Friday evening. We have persuaded our partners," Shkolnik said.

The row blew up in November when TCO said it wanted to fund the expansion by reinvesting profits from its exports.

But the government wanted it to pay tax as normal on its exports and instead borrow money abroad for the development. As a result TCO put the expansion plan on hold.

Shkolnik gave few details on the deal, saying merely that the budget would receive $200 million per year in tax. He would not say where TCO would raise the money for expansion.

"That's not a matter for the public, that's the business of the partners," he told journalists.

A spokesman for ChevronTexaco in Kazakstan's commercial capital, Almaty, said he had no details on the agreement. Kazakstan has vast oil and gas reserves in the western Caspian basin and has successfully attracted foreign capital to develop the sector, which is the basis of its economy. Average production this year is 900,000 barrels per day. ■

Ukraine to vote again on Central Bank chief

Bloomberg

KIEV — Ukraine's parliament will try again to fire Volodymyr Stelmakh as governor of the Central Bank. The lawmakers said they'll vote Thursday vote on a move initiated by President Leonid Kuchma and opposed by investors and lenders.

This is Kuchma's second attempt at firing Stelmakh, who favors a strict monetary policy and opposes printing money to cover a budget deficit. Other lawmakers said the president promised the Central Bank governorship to a parliamentary leader who helped Kuchma win the legislature's backing for a new prime minister last month. ■

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