

Gazprom drops Austria from S. Stream gas route

MOSCOW: Russia's Gazprom has picked Italy over Austria as the destination of its South Stream gas pipeline project, a source at the company said after reports the EU had blocked a Gazprom plan to buy part of a trading platform in Austria.

Local Russian media said the European Commission had blocked Gazprom's acquisition of a 50 percent stake in the gas trading platform of the Central European Gas Hub (CEGH) in Austria — an outlet also coveted by the rival EU-backed Nabucco gas link.

One of the options for South Stream's route was to run from Russia under the Black Sea to the Balkans, with a branch passing through Austrian oil and gas company OMV's hub in Baumgarten.

"There will be no transit through Austria, only a spur will run to them," the Gazprom source said.

The source said South Stream will terminate in Italy, rather than in Central Europe.

A Gazprom spokesman declined to comment.

Gazprom owns 50 percent of the project, while 20 percent belongs to Italy's Eni. France's EDF and Germany's Wintershall have 15 percent each.

Gazprom's stance emerged a day before an EU-Russia summit in Brussels on Thursday where bilateral trade relations will be under scrutiny.

Gazprom, which supplies around a quarter of European gas imports, has been under pressure as Europe seeks to wean itself off dependence on Russian energy resources.

In September, Gazprom's European offices were raided by EU's anti-monopoly authorities in a wide probe into alleged breaches of competition regulations, while new energy rules aim to force the Russian company to "unbundle" its transportation capacity.

The company also faces strong rivalry in Europe from cheaper fuel sources such as liquefied natural gas and the spot market.

South Stream, with construction expenditure estimated at up to \$15 billion, is expected to export 63 billion cubic metres (bcm) of gas to Europe starting from 2015, bypassing transit countries such as Ukraine and Belarus.

Gazprom said it would increase its gas exports to the EU next year to 164 bcm from the planned 152 bcm in 2011 after the November launch of the Nord Stream pipeline which runs direct from Russia to Germany under the Baltic Sea.

Analysts have criticized Gazprom for its spending spree on underwater sea links, designed to bypass transit countries that have in the past temporarily blocked Russian gas supplies to Europe due to pricing standoffs.

"It would be wiser to invest 3 billion-5 billion euros into Ukraine's gas system modernisation than plough 20 billion euros into South Stream construction," Troika Dialog analyst Valery Nesterov said.