

# 13-0-4

## Resources management in the Russian Federation Fallacies of the Russian gas market

13-0-4 - last update:20190812



Natural gas, shell oil, horizontal drilling, decarbonisation



Writing a report



Participate clauses



### Lead In

1

Discuss the following questions.

1. What natural resources does the Russian Federation exploit?
  - natural gas
  - oil
  - (...)
2. What is the role of Gazprom?
  - to carry on the business of extraction, production, transport, and sale of natural gas
  - (...)
3. What are the most common misconceptions of the Russian gas market?
  - 1) market share held by Gazprom
    - Gazprom's supplies account for less than 50% but assumed to be as large as 90%
  - 2) price regulation of gas
    - ✓ applies only to household & public consumption
    - ✓ only supplies by Gazprom should be sold at a regulated price
    - half of the market operates in a non-regulated / deregulated manner
  - 3) price levels
    - export price currently lower than domestic price
    - in practice, once Europeans include tax & transport costs their gas is approximately the same



### Is Russian gas flaring up?

2

Read the article.

1. Find 3 fallacies concerning Russian natural gas exploitation.

(1) market share  
(2) price regulation of gas  
(3) domestic price levels

2. Why is Russian gas not likely to flare up?

Russian gas is part and parcel of a larger, geopolitical strategy.

1. Thanks to its abundant natural resources, Russia is perceived as a country enjoying low energy prices and paying little attention to

2. The trend in lowering gas prices actually stems from the end of the Cold War and the demise of the USSR when the United Nations changed its agenda and re-focused

consumption efficiency. Gas prices used to be round ten times lower than in Europe. However, the days when people would open their windows in the middle of winter to cool down their overheated flats are long over. More disturbingly yet, summer 2019 saw export prices of natural gas cheaper than domestic ones, though most Russians probably wouldn't flare up

3. Indeed, at 45 euro per thousand cubic metres, Russian exported gas being cheaper than the domestic one is due to a complex mechanism and, once transport and tax costs have been included, doesn't finally mean European consumers will pay less than Russian consumers for gas. This is but a wider, long-term strategy justifying hefty investments in building pipelines in the north and south of Europe.

5. These independent producers, such as Rosneft (the third-largest company of Russia by revenue), stand no chance of selling at higher prices than Gazprom in the non-regulated market. For instance, satisfying 300 000 cbm for local industrial needs, independent producers could supply for as much as 70% of the total European demand (420 000 bcm) at yet a lower price. Competition among Russian gas suppliers therefore benefits European buyers.

7. Finally, the advent of horizontal drilling (as opposed to traditional vertical drilling) has made the exploitation of some areas commercially viable only in the past decade. Horizontal drilling had been considered in the days of the USSR but dismissed due to substantial technological obstacles. Nowadays, such shell oil reserves as those in Donetsk just in the middle of Europe could lead to even cheaper natural gas, and perhaps reshape the geopolitical map.

its priorities on world-wide decarbonisation. There are, however, many other reasons: prices in Europe slashed almost twofold, Gazprom positioning its sell price to increase its share on the market, growing competition from the US, to name but a few.

4. Another reason is veiled by the cliché that Gazprom's Russian market share is as large as 90%. Gazprom, as a state company, operates in accordance with the price regulation of gas, which applies only to household and public consumption. While it may be interpreted as monopolistic practice, in reality it is other players who cater for the needs of electricity generating companies and the secondary sector, whose needs account for over 50% of the market.

6. In addition to internal competition on the Russian market, the price decline of natural gas derives from stricter regulations regarding shell oil in the US. By law, natural gas cannot be flared: it is a by-product whose volumes will increase at little or no cost. Gas is sold in the US at a lower cost than in the Russian Federation where there is no such shell oil. What's more, American deposits of gas are estimated to be available for another 50 years.

8. In conclusion, despite the prospect of hydrogen substitute solutions in the car industry for LPG and electricity powered engines, and numerous fallacies regarding Russian market prices, Russian gas is not likely to flare up

Match the expressions from the article on the left with the synonyms and definitions on the right.

fallacy	to come from	demise	large, more than expected (of an amount of money)
to flare up	to get angry	to veil	to hide
to derive	coming of an important event, person, invention...	abundant	existing in large quantities; more than enough
advent	false idea that many people believe is true	hefty	end or failure of an institution, an idea, a company, etc

Answer the following questions true (T), false (F), or does not say (DNS):

- Economies in heating are not on the agenda of Russian households [ T / F / DNS ]
- Russians probably don't find outrageous the fact that the gas they pay for local use is more expensive than the one which is exported [ T / F / DNS ]
- The collapse of the Soviet Union is one reason among others why the UN has made the end of fossil fuels a priority [ T / F / DNS ]
- Expansion of the pipeline grid is not a viable operation by itself [ T / F / DNS ]
- Another reason explaining why gas exported by Gazprom is cheaper than the domestic is hidden by a common belief that Gazprom's Russian market share is as large as 90% [ T / F / DNS ]
- In reality, Gazprom supplies over 50% of the Russian market [ T / F / DNS ]
- Recent availability of horizontal drilling technology means Russian gas is going to become even cheaper [ T / F / DNS ]

cliché = (disapproving) phrase or an idea that has been used so often that it no longer has much meaning and is not interesting

fallacy = false idea that many people believe is true

to subtract = to take a number or an amount away from another number or amount; to deduct; antonym of add

flagship = most important product, service, building, etc. that an organization owns or produces

leverage = ability to influence what people do

demise /dr'maɪz/ = end or failure of an institution, an idea, a company, etc

to flare up = (of flames, a fire, etc.) to suddenly start burning more brightly; (of a person) to suddenly become angry

decarbonisation /diː.kɑːbənaɪ'zeɪʃən/ = reducing greenhouse gas (GHG) emissions produced as a result of transport, including emissions released directly during transport and emissions due to the production of transport - for example emissions from the production of electricity used to power a given mode

advent = coming of an important event, person, invention, etc

