World Experience for Georgia

Gazprom and Diversification

Open Questions Remain

On March 12, 2019 the Ministry of Economy and Sustainable Development announced that it has completed negotiations with Gazprom on Russian gas transit to Armenia. According to the deputy minister, the transit fee has increased and the price of Russian gas for Georgia is reduced in case any private business gets interested in this alternative.[1] "Interested companies" will have the opportunity to buy gas directly from Gazprom.

The contract itself is declared a commercial secret and is not publicly available. Neither the transit fee nor the gas purchase price or other possible documented or undocumented conditions are disclosed. We can only assume that compared to previous known conditions, supposedly the gas purchase price is now below $185/bcm (fixed in previous negotiation) and the transit fee has become adequate to the difficult North-South gas pipeline. However, following the wisdom of negotiation, we have to admit that know nothing unless we know everything and should refrain from conclusions.

More information would be good to understand why Gazprom agreed to better conditions for Georgia at this time. What has changed since 2016? Especially once there has been no significant gas price drop and the price for Armenia has increased from USD 150 to USD 165 in 2019, while also for Moldova, it has increased by 25% and reached USD 237[2]. These examples clearly show political manipulations with political prices, which somehow appears to be in favor of Georgia this time.

In view of this questions, it is only possible to assess of the format of negotiations in attempt to understand; why the agreement signed by two political rather than commercial players is kept a secret? Who are those parties who can use the secret information for own benefit at the detriment of other players? We can do an exclusion to draw the conclusions:

At the first glance, it looks irrational to keep the **gas purchase price** secret. If Georgian companies are to openly buy gas from Gazprom, they should know the price in advance (after buying they will definitely do!). It is also hard to believe that the price will be hidden for Azerbaijani or Armenian sides who have maybe better connections both in Russia and in Georgia. Or why SOCAR must be unaware of the offered price if there is a willingness to establish a competitions and lower the prices as per the claims of the Minister.

Concealing the **transit fee** also seems illogical. According to international practice, the Energy Charter[3] and the EU legislation, pipelines as part of natural monopolies should be open to all parties interested in transit at justified conditions (more details available here). Derogation for the North-South Gas

[1] http://www.economy.ge/?page=news&nw=1064&lang=en
[2] https://balkaninsight.com/2019/03/18/moldovans-face-bigger-gas-bills-after-gazprom-hikes-price/
[3] The agreement was signed by Georgia in 1995

Pipeline was agreed in the Association Agreement with the EU, because of high importance of the previous 10 % in-kind transit payment for Georgia's energy supply. However, in 2016 agreement this condition was lost. Now it is appropriate to get the pipeline under GNERC's transparent regulation and away from the shady area of closed negotiations. Confidentiality makes little sense as:

- Russia and Armenia, who are interested in this pipeline, are strategic allies and can easily exchange this information. It is hard to imagine that Armenia will not know the price of gas transit to its borders. Besides, Gazprom can easily antagonize Georgia with Armenian interests e.g. by claiming that the increase in gas prices in Armenia is be linked with Georgia's increased transit requirements.
- Azerbaijan or Turkey do not have connections with this pipeline and have no commercial interest. If in future there will be some interest to the gas flows through this pipeline, it will could be even better economically for Georgia.
- The pipeline transit fee cannot be used as a benchmark for other cases as it passes through specific and very difficult relief and requires much higher than usual maintenance.
- And at last, if Georgian consumers will buy gas from Russia, the terms of pipeline use cannot stay unknown for them.

All these circumstances raise questions and require clear answers. The questions will disappear if the contract details get revealed after signing it. Otherwise, the doubt can be raised that the agreement is signed for and on behalf of some "specific" company(s) with ties to Gazprom and this information is hidden from Georgian citizens and ordinary businesses, who might be willing but do not have connection with Gazprom. In this case, the Georgian gas market will get split between Gazprom and SOCAR and instead of diversification we will get double dependency.

To eliminate these doubts, it is essential to disclose the full information. Otherwise, we will have to admit that Gazprom has once again won by using its strongest weapon – shady and corrupt dealings; That it found a back-door to the segment of Georgian economy, widened the gap of confidence between the government and Georgian citizens and once again strengthened the helpless feeling that country is governed without consulting or respecting its citizens.

One can only wait and see how things turn out.

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