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<http://qz.com/211819/after-more-than-a-decade-china-and-russia-maybe-inked-a-gas-deal/>

## After more than a decade, China and Russia have inked a gas deal

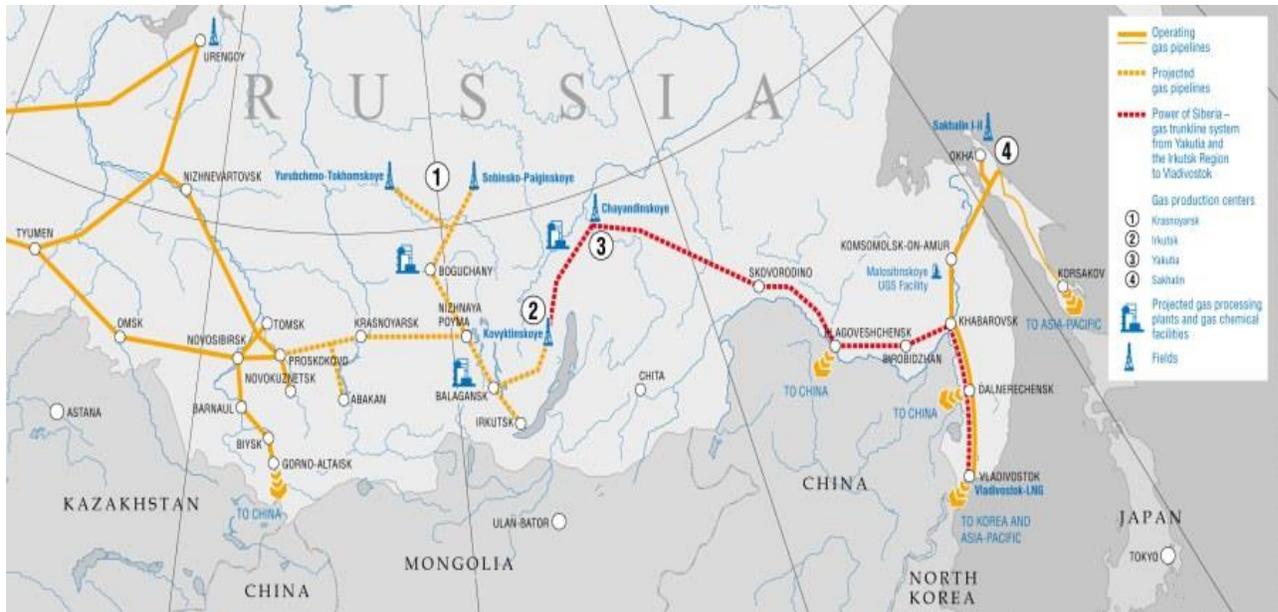
By Jason Karaian and Adam Pasick

May 21, 2014

Russian president Vladimir Putin is in Shanghai, with the primary goal of signing a long-negotiated deal to supply China with natural gas. The news just came through that the deal is apparently done, with Russia agreeing to deliver 38 billion cubic meters of gas per year, for 30 years. The pricing is not yet available, but indications are that the deal is worth about \$400 billion.

As Quartz has reported, China was expected to drive a hard bargain. Putin is fast losing friends in Russia's main energy export market of Europe, and his negotiating power has been further eroded by the surge of cheap natural gas from US shale drilling.

The Sino-Russian deal on natural gas has long been held up by a fundamental disagreement on price, and as of yet it's hard to tell which side may have flinched. A very rough calculation on the \$400 billion figure implies that China agreed to a price not far from what state-owned supplier Gazprom gets for the gas it already sells to Europe. That said, the pipeline to deliver the gas—dubbed the “Power of Siberia”—is not yet built. Factoring in the cost of construction would likely push the break-even price of shipping gas to China even higher.



The proposed “Power of Siberia” pipeline (in red).Gazprom

The lack of detail on what would be a historic deal—it has been in the works for more than 10 years, with plenty of false starts along the way—makes it prudent to question the particulars. Is this a sealed deal or a softer agreement that will require more talks to resolve the finer details? Is it a binding contract or a memorandum of understanding? Just this morning, the Financial Times reported that the gas-supply talks had broken down, so the sudden reversal is sowing confusion.

Investors are circumspect. For all of the fanfare that the Russian media is making of the apparent agreement, shares of Gazprom, the biggest potential beneficiary of the deal, rose by only 2% in midday trading before slipping to a gain of less than 1% at the time of writing. Perhaps shareholders know that when it comes to energy mega-deals between two of the world’s least transparent governments, it’s worth taking every breathless announcement with a grain of salt.