

## Russia gas plan in doubt, says Eni chief

Guy Dinmore in Rome MARCH 23, 2014

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Paolo Scaroni, chief executive of [Eni](#), is doubtful about the future of the South Stream project intended to pipe Russian gas under the Black Sea to Bulgaria, unless the EU and Russia find a way out over Ukraine.

However, Mr Scaroni is clearly relieved that Italy's oil and gas group made a profitable exit from a major Siberian gasfield at the right time.

Eni sold its 60 per cent stake in the Arctic Russia field in Siberia's northwestern Yamal peninsula in January to a group led by Russia's [Gazprom](#) for nearly \$3bn. The initial investment in 2007 cost \$600m.

"We were smart to sell Arctic Russia. We got the timing right," Mr Scaroni told the Financial Times, adding that it would have been much more difficult to get such a deal in the current climate. "Russian companies now are more cautious with their cash."

Asked if [events in Ukraine](#) had been part of his calculations, Mr Scaroni said it was "one of the issues in the puzzle".

"I was smelling that Russia is Russia. Russia is not Switzerland," he said, noting that Eni had been dependent on Gazprom for transporting the gas out of Siberia.

Eni is renegotiating its long-term and loss-making gas contracts with Gazprom and Mr Scaroni believes the Ukraine crisis "strengthens very much our hand", depending how the situation evolves. "We feel in very good shape," he said.

Mr Scaroni said [Europe is too dependent on Russian gas](#) to stop imports in the short term, although he believed that Italy – where Russian gas accounted for 28 per cent of consumption in 2012 – could get by with difficulty.

But unless there is an agreement reached with Moscow over Ukraine and the Crimea then he expected Europe to start a "gigantic effort" to diversify its sources, including developing shale gas in Europe, importing more LNG, and focusing more on Algeria, Libya and Norway.

But every decision has repercussions, he added: "Abandoning nuclear power means more gas. CO2 limits mean less coal and more gas."

Mr Scaroni intends to return to Kiev soon to discuss nine blocks of shale gas in the northern Lviv basin where Eni has paid for exploration rights. “Am I worried? No. Do I want to explore? Yes,” he said.

But plans to explore for Black Sea gas off Crimea are on hold, said Mr Scaroni, noting that the state-owned Ukrainian company with those rights is now under Russian control.

Mr Scaroni sees Europe moving “slowly, but steadily” towards taking more measures against Russia if the Ukraine crisis is not resolved. The onshore development of the South Stream project beyond Bulgaria into Europe still requires EU assurances of authorisation to proceed with financing.

The outlook for South Stream was “gloomy”, Mr Scaroni told an Italian parliamentary hearing.

Gazprom holds a 51 per cent stake in South Stream’s offshore consortium, while Eni has 20 per cent, with France’s EDF and Wintershall of Germany holding about 15 per cent each. Just days before Russia annexed Crimea, the consortium signed a €2bn contract with Italy’s Saipem to lay the first of four deep-sea pipelines.

South Stream would reduce reliance on Ukraine as a transit country for Russian gas but increase Europe’s dependency, Mr Scaroni said, adding that the decision rests with the EU and that Eni “has no say in this”.

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