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By David J. Unger

Ukraine-Russia gas talks stall. Why they won't fail

Чому україно-російські переговори про газ, які зараз забуксували, не потерплять невдачу

ЄС не має наміру допускати, щоб російсько-українські переговори зайшли в глухий кут. Комісар ЄС з енергетики Еттінгер, який виступає на них посередником, домагається угоди, яка виключила б припинення поставок на Україну. Тим часом Брюссель тимчасово заблокував проект Москви з будівництва газопроводу в обхід цієї країни. "Москва дуже хоче прокласти цей газопровід, так що у неї є додатковий стимул помиритися з Європою через Україну", - вважає автор.

<http://www.csmonitor.com/Environment/Energy-Voices/2014/0611/Ukraine-Russia-gas-talks-stall.-Why-they-won-t-fail>

Gas talks between Russia and Ukraine reached an apparent standstill Wednesday after a week of progress toward resolving an ongoing price dispute. Russia's state owned gas giant Gazprom has issued another deadline extension, giving Ukraine until June 16 to begin prepayment of future gas supplies.

A failure to reach an agreement would create further economic uncertainty and instability in Ukraine, already faced with continuing violence and unrest in its eastern regions. Russia has cut off gas supplies twice before during tense price disputes, and Europe is already preparing for that worst-case scenario. The impasse will be hard to break, and is a proxy for a broader debate over the future of Russian energy in Europe. Ultimately, Russia, and Europe – not just Ukraine – have a lot to lose if negotiations fail.

"The fact that Russia keeps extending the deadline indicates a completely different position than was the case in 2006 and 2009 when gas supply was cut off quickly," writes Chris Weafer, founding partner of Macro-Advisory, a Moscow-based business and investment consulting group. "Removing the threat of a gas flow disruption is an important part of Russia repairing political and economic relations with the EU [European Union]," Mr. Weafer writes in an e-mail.

Moscow and Kiev continue to lock horns on the price of gas supplies, as well as Ukraine's gas debt to Russia. On Wednesday, Kiev rejected Moscow's offer to lower gas

prices by removing an export duty, holding out instead for an entirely new gas contract that hews closer to European market prices, and legally binds Russia to a new price.

"Russia continues playing the game of 'discounts for political concessions' and again proposes the discount to the contract price," writes Dmytro Naumenko, an energy analyst at the Kiev-based Institute for Economic Research and Policy Consulting. Ukraine is eager to change the contract itself because history shows that even official Russian discounts are unpredictable, Mr. Naumenko adds via e-mail.

Last fall, Moscow cut Ukraine's gas price by nearly half after then President Viktor Yanukovich backed out of a trade agreement with the EU. The move helped to spark the unrest that continues today. Russia canceled the discount after pro-European Ukrainians ousted Mr. Yanukovich in February, unilaterally returning the price of gas to the \$485 per 1,000 cubic meters agreed upon in the original 2009 contract.

Russian President Vladimir Putin has repeatedly denied accusations from the West that his government has wielded its gas supply as a weapon.

"The issue is that our Ukrainian partners find these discounts insufficient and want more, though it is not very clear on what grounds," Mr. Putin said Wednesday at a meeting with cabinet members. "But if this is the case, then this whole affair looks to be deliberately heading for a dead end."

The EU, which depends on Russia for about 15 percent of its natural gas supplies, is determined to not let that happen. German Chancellor Angela Merkel discussed the ongoing talks with Putin via telephone Wednesday. Germany is the largest importer of Russian gas and imports most of it through a pipeline that bypasses Ukraine.

EU Energy Commissioner Guenther Oettinger has been mediating talks over the past weeks, pushing for a deal that would avoid a cutoff of gas to Ukraine, which would likely disrupt flows to Europe. A little less than half of Europe's imported Russian gas goes through pipelines in Ukraine. Brussels has temporarily blocked Moscow's plans to build another gas pipeline around Ukraine to southeastern Europe. Moscow dearly wants that pipeline built, so it has extra incentive to make peace with Europe over Ukraine.

"There are differences of opinion. We are talking about billions. There are major business interests that are at odds with each other," Mr. Oettinger said after Wednesday's talks, as reported by Reuters. "But we have both sides here in Brussels, and that's very encouraging."

Ample gas stockpiles and the onset of summer make it easier for Ukraine to live without a fuel it uses primarily for heating and electricity, which might explain why it has rejected new discounts from Russia.

"[T]he 2009 agreement on gas, which was a clear loss for Ukraine, was signed under severe pressure from Russia and EU, in winter time when Ukraine had no gas stockpiles," Alexander Paraschiy, head of research at Concorde Capital, a Kiev-based investment firm, writes via e-mail. "Now the situation is completely different. And it's a good time to revise that agreement."