

Gas Bypasses Ukraine as Nord Stream Goes Live

By [The Moscow Times](#)

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Putin, flanked by Miller, right, and Gerhard Schröder, left, visiting the gas compressor station near Vyborg. **Alexei Nikolsky**

Prime Minister Vladimir Putin on Tuesday clicked open the valve at a compression station near Vyborg to start filling the \$10 billion subsea natural gas pipeline from Russia to Germany, bypassing Ukraine, where disputes halted supplies to European customers twice since 2006.

The Nord Stream pipeline will be able to carry enough gas to supply 26 million European homes when it is fully functional next year. It is the first direct link between Western Europe and Russia, which supplies about 25 percent of the European Union's gas.

Nord Stream may weaken Ukraine's hand in negotiating gas supply deals with Russia. Ukraine now carries 80 percent of Russian gas to the European Union through Soviet-era pipelines.

Gazprom and its partners — BASF's Wintershall unit, E.On Ruhrgas, Nederlandse Gasunie, and GDF Suez — are building the pipeline in stages. The first line will have a capacity of 27.5 billion cubic meters a year, doubling to 55 bcm when the second line is ready in 2012.

"We are slowly and surely turning away from the dictate of transit states," Putin said Monday as he announced that Russia's gas export monopoly would start filling the Nord Stream link. The link will supply commercial gas to Germany at the end of next month, he said.

The link crosses a seabed strewn with more than 150,000 mines during and after the two World Wars as it runs from the Russian city of Vyborg near the Finnish border to Greifswald on the German Baltic coast, according to Nord Stream. The company bypassed the munitions in some locations and removed them in others.

The total cost of the link, including financing expenses, is about 8.8 billion euros (\$12.5 billion), Deputy Prime Minister Igor Sechin told reporters Tuesday near Vyborg.

Gazprom may divert as much as 20 bcm that is currently shipped through Ukraine to Nord Stream, chief executive Alexei Miller said in May, according to Russia 24 state television.

Ukraine's state-run energy company Naftogaz, which pumps about 100 bcm of gas a year to Europe, has an annual transit capacity of 142 bcm.

"Reduction in transit volumes will cause Ukraine to lose about \$550 million in revenues from transit next year," said Denis Sakva, an energy analyst at Kiev-based Dragon Capital investment bank.

Nord Stream is nearing completion as Ukraine, the biggest buyer of Russian gas, seeks lower gas purchases from Gazprom and revisions to a pricing formula. Gazprom's Miller had offered to revise the contract if Naftogaz agreed to merge with his company. That proposal was rejected by Ukraine.

Ukraine may have to turn to an international court "as a last resort" to revise gas supply contracts, President Viktor Yanukovich said Sept. 3, according to his web site.

Adding a third line to Nord Stream may make sense, given the situation with Ukraine, Sechin said Tuesday.

Gazprom has contracted about 22 bcm to supply customers including E.On and GDF Suez via Nord Stream in the coming years. The link is supplied mostly from the Yuzhno-Russkoye field, which Gazprom is developing with Wintershall and E.On, and may eventually take gas from Gazprom's Shtokman deposit in the Barents Sea.

Meanwhile, Electricite de France and BASF will each get stakes of 15 percent in the planned South Stream pipeline to Europe, Miller said. Eni's share in the project will shrink to 20 percent, he told Putin on Tuesday, according to Kupriyanov.

Eni and Gazprom said the South Stream pipeline project "continues according to schedule," Eni said in a statement Monday after chief executive Scaroni met with Miller in Moscow. The two companies also discussed "issues relating to the entrance of EDF and Wintershall Holding as shareholders of the joint venture for the construction of the offshore section

of South Stream project," according to the statement.

Deputy Prime Minister Igor Sechin said Tuesday that Ukraine cannot unilaterally break the gas deal that is at the heart of the current pricing dispute, ratcheting up the rhetoric over a 2009 supply contract struck after a dispute disrupted gas supplies to the European Union.

"You cannot just unilaterally break a contract," Sechin told reporters near Vyborg, Bloomberg reported.

"There are obligations. Under any circumstances, the involved parties have to stick to the obligations," said Sechin, who oversees Russia's oil and gas sector.

In 2011, Ukraine envisages importing from Russia for its own use about 40 bcm of gas at a cost of between \$264 per 1,000 cubic meters in the first quarter and \$400 per 1,000 cubic meters in the fourth quarter.

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