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Ukraine Snubs Russian Gas for European Imports

By The Moscow Times

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KIEV — Ukrainian state energy firm Naftogaz has reduced Russian gas imports by 30 percent this year and will cut them further in 2014 by doubling imports from Europe, Ukraine's Energy Minister Eduard Stavytsky said in an interview.

Ukraine has long asked its powerful eastern neighbor to cut the price of energy supplies. But with years of talks producing no tangible results, in late 2012 it started to replace Russian gas with cheaper fuel purchased on the European spot market.

Although it is years away from potential energy independence, Kiev hopes diversification will ease Moscow's grip on its economy and persuade Russia to reconsider its stance, which has become even tougher this month as Moscow stepped up customs checks on all Ukrainian goods.

"I think that [imports from Europe] will be 2 to 2.5 billion cubic meters this year, and in 2014 no less than 5 billion cubic meters, judging from the plans and bids that I have already seen," Stavytsky said.

He said the price of gas supplied from Europe by one of Ukraine's partners, German firm RWE, was expected to average $385 per thousand cubic meters (tcm) in the period from September 2012 to September 2013.

Naftogaz paid more than $400 per tcm for Russian gas in the same period.

Ukraine receives gas from Europe by reversing some of the pipelines that were originally designed to carry gas from Russia to Europe.

"Technically, we can facilitate [imports of] 6.5 billion cubic meters [a year]," Stavytsky said.

In the longer run, Ukraine plans to further reduce its dependence on Russia by shipping in liquefied natural gas (LNG) through the Black Sea and developing seashelf and shale gas deposits.

Stavytsky said a floating LNG terminal, which Ukraine plans to rent from U.S. firm Excelerate Energy, would be able to handle 5 billion cubic meters of gas a year.

He said Kiev saw signs that Turkey, which has threatened to block LNG shipments through its straits leading into the Black Sea, was ready to soften its stance.

"It is not us, it is the companies that want to supply us, they are carrying out negotiations," he said.

In order to tap its own resources, Ukraine this year signed a production-sharing agreement with Shell to develop the Yuzivska shale gas field in eastern Ukraine.

Stavytsky said it was close to signing two more deals with global energy majors. Local councils in western Ukraine are due this week to review a draft agreement with Chevron on another shale gas project, the Olesska field.

And talks are progressing with a consortium led by ExxonMobil and Shell on a deal to develop the Skifska field on the Black Sea shelf.

"I think it will be signed within two months," Stavytsky said.

He said that Ukraine was working on another "very big" Black Sea shelf project and that by 2020 it hoped to become self-sufficient in gas.

"We want to produce 8 to 10 bcm [per year] on the Yuzivska field and 3 to 5 bcm on the Olesska," Stavytsky said. "[On the Skifska field] we expect to produce 10 bcm [annually] in five years' time."

If these targets are met, local production could indeed replace Gazprom supplies to Naftogaz, which are planned at 18 bcm this year.

But Stavytsky said Ukraine still hoped to work out a compromise solution with Russia for the coming years, using its new resources as leverage.

"We cannot stop imports from Russia altogether today, even if we wanted to," he said.

"[But] I think our partners do not fully understand our commitment to, and our actions aimed at, the diversification [of gas imports]."

Russia this month introduced mandatory checks for all Ukrainian goods crossing its border which, according to Ukrainian companies, are disrupting bilateral trade.

While the Kiev government has played down the Russian move and launched talks to resolve the situation, opposition politicians in Ukraine have called it a trade war aimed at stopping Ukraine from signing a free trade deal with the European Union.

"Let us be guided by business and economic interests and not political ones," Stavytsky said. "When politics takes over business ... one can reap momentary profit but lose much more [in the longer run]."

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