

Natural Gas Key Pawn in Ukraine Crisis

By [The Moscow Times](#)

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The Crimean coast is likely to remain pristine a while longer as offshore gas exploration plans are now on hold.

FRANKFURT— EU Energy Commissioner Günther Oettinger is to delay talks with Russia on the South Stream gas pipeline project aimed at Russian gas via the Black Sea, he told a German newspaper on Monday, in response to the crisis in Crimea.

"I will not accelerate talks about pipelines such as South Stream for the time being, they will be delayed," Oettinger, a German national, said in daily paper Die Welt.

Oettinger said that Europe was not facing a gas supply problem as a diplomatic solution is sought to Russian troops taking control of Crimea following the collapse of Ukraine's government..

Russia has started building South Stream, which would bypass Ukraine, to bring up to 15 percent of Europe's annual gas demand to the European Union via the Black Sea by 2018.

Oettinger also said he supported visa and banking sanctions against Russian decision-makers and wealthy individuals, but no large-scale economic measures.

"It would be wrong to question the economic ties that have been built over decades [with Russia]," he said. "They are important for the economy and jobs in Europe and Russia."

Meanwhile, Kiev is bracing for a gas price increase. Gazprom is likely to increase its prices to Ukraine pays to \$368.5 per 1,000 cubic meters in the second quarter of this year, Interfax quoted the Ukrainian energy minister as saying on Sunday.

Russia agreed in December to cut gas prices for Ukraine to \$268.50 per 1,000 cubic meters from \$400, as part of a bailout package following Kiev's decision to reject closer ties with the EU and turn to Russia instead.

"From Russia we expect to pay about \$368.5 in the second quarter," Fuel and Energy Minister Yuri Prodan was quoted as telling reporters.

On Friday, Gazprom issued a thinly veiled warning that it could stop shipping gas to Ukraine over unpaid bills, increasing pressure on the new government in Kiev and its supporters in Europe, which gets half its Russian gas through Ukraine.

"Either Ukraine makes good on its debt and pays for current supplies, or there is risk of returning to the situation of early 2009," Gazprom CEO Alexei Miller said.

Gazprom halted gas supplies to Ukraine over unpaid bills at the beginning of 2009, which led to reductions in supplies of Russian gas to Europe during a cold winter.

"Today, March 7, was the deadline for payments for gas supplies to Ukraine in February. Gazprom has not received payments for the debt," Miller said, adding that Ukraine's overdue gas debt to Russia now stands at \$1.89 billion.

Last year, Gazprom supplied the EU and Turkey with 162 billion cubic meters of gas, a historic record, of which 86 bcm went via Ukraine.

The gas giant has been cutting gas supplies to Europe via Ukraine as it has built a pipeline called Nord Stream under the bed of the Baltic Sea directly to Germany.

Norwegian gas exports surged to the highest levels since January 2013 on Friday as demand rose in continental Europe due to fears that Russia may cut gas supplies via Ukraine.

Russia's seizure of Crimea has also put Kiev's plans to develop offshore Black Sea gas fields on hold.

Ukraine's Black Sea push has attracted energy majors as investors, including Exxon Mobil, Royal Dutch Shell, ENI and OMV.

Promising developments include the Odessa gas field where plans call for output of more than a billion cubic meters of gas by 2015.

Exxon Mobil has put its offshore activities in Ukraine on hold due to the circumstances, senior

vice president Andrew Swiger told investors last week.

"[Ukraine's] high hopes of increasing offshore gas production may fade with the Crimea referendum," Mikhail Korchemkin at East European Gas Analysis said.

In the event Crimea does join Russia, analysts said Ukraine's Black Sea gas could end up in Russian hands though be connected to Ukraine's gas infrastructure. They say Ukraine would then likely cut off supplies to Crimea.

That in turn could prompt Russia to use the Odessa field and other Ukrainian developments in the Black Sea to supply Crimea, they said.

"Taking into consideration all logistics ... it is hard to predict how Crimea can live without normal relationships and connections with Ukraine," said Arthur Nitsevyh, a partner at Interlegal, a Ukraine-based transport and shipping law firm.

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