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Russia Threatens to Cut Gas to Ukraine

By The Moscow Times

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Russian Energy Minister Alexander Novak talking to the press after talks with the EU's energy commissioner.

WARSAW — Russia has threatened to cut natural gas supplies to Ukraine in June if it receives no prepayment in an escalating row between Moscow, Ukraine and the European Union over energy supplies.

"If we do not receive prepayment for June by May 31, then it is possible Gazprom will reduce gas supplies to Ukraine or provide it with the capacity it has paid for by May 31," Russia's Energy Minister Alexander Novak said during joint talks in Warsaw between Russia, Ukraine and the European Commission.

He also warned that Ukraine might not be able to store enough gas during the summer for transit to European countries in the winter.

A third of the EU's gas demand is met by Russia, with almost half of that passing through Ukraine, which is currently in a pricing dispute with Russian gas exporter Gazprom, its third

in the past decade.

Gazprom says Kiev owes it some $3.5 billion for gas already delivered.

Friday's gas talks were held after President Vladimir Putin called on the EU to intervene to avert a repeat of gas cuts prompted by the two previous pricing disputes.

Coming out in support of Ukraine, EU Energy Commissioner Guenther Oettinger told the gas meeting that the EU would support Ukrainian gas firm Naftogaz economically, adding he hoped there would be no gas stoppages.

"Stakeholders promised that there will be no stoppages in gas deliveries and despite ongoing legal issues, gas will be delivered to the EU and Ukraine by end-May," Oettinger told a press briefing. The three sides will meet again in mid-May and at the end of the month.

Ukraine Energy Minister Yury Prodan said Kiev was willing to pay a fair market price for gas.

The country enjoyed a brief price discount offered under former pro-Russia Ukrainian President Viktor Yanukovych earlier this year but Gazprom hiked the price in April following his ouster.

"Ukraine, having received from Russia an unjustified, discriminatory price for gas from April 1, 2014, at nearly $500 per 1000 cubic meters [up from under $300], will not be able to pay for gas deliveries at this price," said Prodan.

Gas prices are also an issue between Russia and the EU, and Oettinger said EU member states should reject Moscow's "divide and rule" tactics on pricing.

"The game of 'divide et impera' [divide and rule], or a game of this type proposed by Moscow, cannot be and will not be accepted by EU member states," Oettinger said, referring to the varying prices Russia charges across Europe.

He called for a unified EU gas price from Russia, reflecting tougher talk on energy in Europe in the wake of the Ukrainian crisis.

"We want a uniform gas price in the European common market," Oettinger said at the joint news conference with Polish Prime Minister Donald Tusk.

Tusk has also promoted the idea of an EU energy union and joint purchases of Russian gas.

Currently, EU member states buy Russian gas under bilateral contracts with Moscow while joint purchases would improve EU's negotiating power and likely lower prices.

"We have very big differences in terms of gas prices. The higher the share of Russian gas in purchases and the bigger the monopoly Russia has in supplies, the higher the prices are," Oettinger said.

Gazprom said his pricing proposal raised contractual questions. "We would like to know if the proposal is to unify the price for all suppliers of gas to Europe, not only Russia," said spokesman Sergei Kupriyanov.

Gazprom boss Alexei Miller attended the talks on Friday and when asked about idea told Reuters: "What I am most concerned about is that Ukraine said today it is unable to guarantee stable transit to Europe this winter."

Prodan said Ukraine was ready to guarantee smooth transit and he hoped an ongoing arbitration in Stockholm over what Ukraine sees as artificially high prices may lead to the realization that in fact Ukraine owes Gazprom no money.

Price disputes between Moscow and Kiev prompted Gazprom to switch off supplies in 2006 and again in 2009, causing winter heating and cooking gas shortages in Ukraine and several states which receive gas via the country.

The EU has since made some progress in diversifying its energy mix yet its reliance on Russian oil, gas and coal has continued to rise, with Europe paying Moscow $250 billion in annual energy bills.

Oettinger also said Europe should have pan-European grids for natural gas and electricity, including more power links between countries.

"The infrastructure with regard to gas and energy transit should have a pan-European character and should also include Ukraine, Georgia and Western Balkans," Oettinger said. "We want to prove our solidarity with Ukraine."

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