

U.S., EU Unlikely to Invest in Ukraine's Gas System, Analysts Say

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A pressure gauge, pipes and valves are pictured at a boosting compressor station (BCS) on the East Poltava gas field near the village of Kovalivka, in Poltava region.

Ukraine's move Friday toward attempting to sell nearly 50 percent in its gas pipeline system to EU and U.S. investors does not mean that Western buyers will rush to take up the offer, as the system's value depends on a steady supply of Russian gas, energy analysts told The Moscow Times.

Amid the current standoff with Russia over unpaid bills for gas imports, Ukraine's parliament passed a bill in its first reading Friday that envisages the creation of a Ukrainian gas transportation operator of which European and U.S. investors could own up to 49 percent.

The move appeared to be Ukraine's attempt to retain control of the revenues that transporting Russian gas to Europe brings, just as Russian state energy giant Gazprom moves towards construction of the planned South Stream pipeline, which will bypass Ukraine on its way

to Europe.

Russia supplies about a third of Europe's total gas requirements via pipelines running through Ukrainian territory, and has coveted control of the transport system for the last two decades. Kiev has rejected attempts by Russia — Ukraine's main gas supplier — to take control of the transport system amid a series of acrimonious gas wars that have seen Russia's Gazprom turn off shipments to Ukraine several times in the past few years over unpaid bills.

Battling South Stream

The bill excludes Russia from ownership in the system by only accepting as shareholders companies owned and controlled by residents of the EU, U.S. or European Energy Community, of which Ukraine is a member but Russia is not. The company must also belong to the European Network of Transmission System Operators of Gas. The same conditions apply for operators of Ukraine's subterranean natural gas storage facilities.

Ukraine's Prime Minister Arseniy Yatsenyuk told parliament Friday that the energy situation in Ukraine is "critical" and "part of a war that Russia has rolled out against Ukraine."

"Russia is trying to tighten as many screws as possible on us," he said, according to the Ukrainian government's website.

"Together with European and American companies, Ukraine, which will have the controlling stake in the company, must earn more money [from the gas transport system] so that our eastern and northern neighbors will not construct South Stream around Ukraine," he said.

If the South Stream pipeline project is completed, then by 2015 Ukrainian pipelines will no longer be needed for Russian gas exports.

No Guarantees

But Europe and the U.S. are unlikely to invest in the proposed transport system, according to Sergei Pikin, director of the Moscow-based energy consultancy and engineering firm Energy Development Fund.

"So far we have not seen any companies express an interest in this arrangement. Who will be interested in an asset that is dependent on gas from a third party — Russia?" he said.

Yatsenyuk said previously that several European and U.S. companies had already sent proposals on investing in Ukraine's gas system, but did not disclose their names.

Russia cut off supplies to Ukraine on June 16 after the collapse of talks over the country's unpaid bills, with Gazprom claiming that Naftogaz owes nearly \$4.5 billion. Gazprom has said that so far, gas flows via Ukraine remain stable, but on similar occasions in 2006 and 2009, when Gazprom accused Ukraine of stealing gas, Gazprom limited the supply to Europe too.

If Europeans and U.S. investors step in as major stakeholders in Ukraine's gas transport system, they are unlikely to guarantee that no Gazprom gas designated for Europe is siphoned off on Ukrainian territory, gas analysts said.

"If the EU and U.S. own 49 percent then they will be in no position to guarantee anything at all," said Konstantin Simonov, director of the National Energy Security fund, a Moscow consultancy firm.

"In any case, they will not invest in these assets. What the Americans want is to perpetuate the crisis and thus paralyze Russia, Ukraine and Europe," he said.

Change of Heart

The parliament made a U-turn on Friday morning after failing to garner enough votes for the same bill the night before. The bill was passed with 229 votes, barely above the 226-vote threshold, according to the parliament's website.

"It seems like someone just called these deputies and told them to vote the right way; I can see no other explanation for such a sudden change," Simonov said.

"For many years Ukraine has argued that its gas transport system is a national asset that cannot be sold to anyone, but today we see that this concept is flexible," he said in a phone interview.

Delphine d'Amora contributed to this report.

See also:

[Ukraine Passes Bill Allowing EU and U.S. to Invest in Gas System](https://www.themoscowtimes.com/2014/07/04/us-eu-unlikely-to-invest-in-ukraines-gas-system-analyst-s-say-a37047)

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