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U.S. Officials Urge Ukraine to Reform Gas Markets to Cut Reliance on Russia

By The Moscow Times

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An employee turns a valve at a boosting compressor station on the East Poltava gas field near the village of Kovalivka, Ukraine.

Ukraine must reform its historically inefficient and corrupt natural gas markets to guard against Russian aggression and supply controls, U.S. State Department officials have told lawmakers.

After invading and annexing Crimea this year, Russia cut off natural gas supplies to Ukraine last month in a dispute over unpaid bills. Escalation of the nearly decade-long argument between Moscow and Ukraine over gas imports has raised concerns about a disruption of supplies to the rest of Europe.

Ukraine has enough gas for now, but the winter heating season looms. The U.S. is trying to make sure Ukraine, Bulgaria and other Eastern European countries are better able to integrate into the EU's energy market of 400 million customers to get reliable supplies

from Russia and other countries.

"This is an opportunity, it is a moment in time for Ukraine to walk away from its past," Amos Hochstein, deputy assistant secretary for energy diplomacy with the U.S. State Department's Bureau of Energy Resources, told lawmakers on a Senate foreign relations subcommittee.

"Part of its past was a highly corrupt, inefficient system ... instead of using energy as a resource for stability and security, it was the opposite," he said.

Hoyt Yee, a State Department official for European and Eurasian Affairs, said corruption was not limited to Ukraine and that Washington is devoting greater resources to fight the problem in Central and Eastern Europe and in the Balkans.

Natural gas production in Ukraine still relies on highly inefficient 1970s Soviet technology, and its energy subsidies have hurt investments.

And Russia has accused Ukraine of siphoning off gas that was meant for shipment on to Europe, and of not paying its bills.

If the U.S. pours money into Ukraine to fix energy problems it will make little difference without the reforms, the officials told lawmakers.

"If corruption and inefficiency continue along with crippling energy subsidies for consumers, Ukraine will be right back where we all started," Hochstein said.

Senator Christopher Murphy, a Connecticut Democrat, questioned how the U.S. can ask Ukraine to tear down its natural gas system and rebuild to make it more efficient and impose fuel price increases on consumers when the new government lacks money.

Hochstein said instead of abandoning Soviet-era natural gas infrastructure, Ukraine could embark on subsidy reform and better manage its existing system to encourage investment by international energy companies.

Ukraine has large shale gas resources that are not being developed, resources similar to ones in the U.S. that international energy companies have been drilling in recent years.

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