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Russia-Europe Gas Game Heats Up as Winter Looms

By The Moscow Times

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Gazprom CEO Alexei Miller reacts as he attends a news conference after gas talks between the EU, Russia and Ukraine at the EU representation in Berlin.

A cat and mouse game is on between Europe and Russia over gas supplies as the continent switches into the winter heating season.

Since September, Russia's state-controlled Gazprom has sent less-than-requested deliveries to Poland, Slovakia, Austria and Hungary — after the European Union began sending gas to Ukraine — in a clear warning from Moscow ahead of the winter heating season which officially starts on Oct. 1, when the industry switches to higher pricing.

"Nobody should be surprised by what Russia does. They want to keep pressure on Ukraine... at the start of the heating season," said Michael LaBelle, a gas expert at the Central European University in Budapest.

Russia is Europe's biggest supplier of natural gas, meeting almost a third of annual demand and in return, Gazprom receives around $80 billion in annual revenues from its European customers, making up the majority of its income.

Moscow halted gas flows to Ukraine three times in the past decade, in 2006, 2009 and since June this year, although this year gas for the EU via Ukraine has so far continued to flow.

Opening up gas flows eastward was part of the EU's response to Gazprom's decision to cut supplies to Kiev in June. Slovakia, Poland and Hungary can also send gas to Ukraine but so far deliveries have not been without incident.

Poland temporarily stopped deliveries to Ukraine last month after Warsaw said it was getting less gas from Russia than requested. Hungary stopped eastward supplies last week in order to fill its own storage tanks ahead of winter.

Slovakia, with the largest EU-capacity to Ukraine, had maintained deliveries but saw its own gas imports from Russia fall below requested amounts in September.

While analysts have not seen the situation so far as the start of a "gas war," they agree it is a warning to Europe that Russia is ready to retaliate should Brussels impose further sanctions on Moscow over its intervention in Ukraine.

"It (the Russian export reductions) could actually be in the end quite harmless. But the fact that they did not tell anyone in advance, (shows) that nobody should trust any explanation he or she gets, and that in itself is damning," Czech energy security ambassador Vaclav Bartuska said this week.

He added it would be foolish to expect gas to flow as usual through Ukraine this winter.

Deal?

Traders have, however, pointed out that Russia's recent reductions to Europe were within contractual allowances and came during times that EU gas storage tanks are well filled.

Gas Infrastructure Europe data show that the EU's gas storage sites are filled to an average of over 90 percent, compared to just 68 percent this time last year.

"Most of the EU has its gas tanks filled to the rims, so they don't need more gas at the moment, while Gazprom needs to still fill its domestic reserves ahead of the Russian winter, so I'm not surprised by its flow reductions to the EU, which were all within contractual allowances," one EU utility trader said.

While gas deliveries to Germany, Gazprom's biggest customer, should continue through the Nord Stream pipeline which bypasses Ukraine, the outlook is far less certain for central and southeastern European nations which receive most or all of their imports from Russia and via Ukraine.

To deal with a potential shortfall this winter, the European Union has prepared emergency plans and has also sought a compromise to safeguard winter supplies in a potential deal that would guarantee Kiev at least 5 billion cubic metres of Russian gas for the next six months if

Ukraine made pre-payments.

Russia's energy minister said on Tuesday he hoped to reach a deal in a gas dispute with Ukraine this week, although he added that Kiev must pay some of its large debts before Moscow resumes gas supplies.

Yet even if a deal is reached, analysts say flows to the EU could get disrupted this winter as Ukraine did not have enough time to fill its gas reserves ahead of the cold winter months.

"There is every chance that there will be interruptions especially if the Ukrainians don't manage to get more gas into storage because," said Peter Hughes of German consultancy Global Gas Partners on the sidelines of the 2014 Platts European Gas Summit.

In the end, however, analysts said that all sides involved would lose if gas stopped flowing this winter.

"All parties will be losers. They don't have anything to gain out of the situation," said Stephane Bertoncini of Chappuis Halder & Cie in Paris.

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