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INDEPENDENT NEWS FROM RUSSIA

Russia and Ukraine Aim to Break Gas Deadlock at EU Meeting

By The Moscow Times

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Ukraine's President Petro Poroshenko (R) talks with his Russian counterpart Vladimir Putin (L), as France's President Francois Hollande (C) watches during a meeting in Milan, Oct. 17, 2014.

Russia and Ukraine aim to resolve an impasse over natural gas supplies on Tuesday as their energy ministers meet in Brussels for talks brokered by the European Union's energy commissioner.

Citing unpaid bills worth more than $5 billion, Russia cut off gas flows to Kiev in mid-June, adding to tensions sparked by Russia's annexation of Ukraine's Crimea region.

After months of stalemate, pressure has mounted to reach a deal to allow gas deliveries for heating as winter approaches.

Differences remain but Russian Energy Minister Alexander Novak said ahead of the talks that he hoped to finalize a deal on Tuesday.

The three sides arrived in Brussels for negotiations provisionally set to end by 1200 GMT although officials warned they could run over.

The focus is on price, the number of payments Kiev should make, and the volume of gas Ukraine would get from Russia over the winter period, Commission spokeswoman Marlene Holzner said earlier.

Despite cutting off gas for Kiev, Russian exporter Gazprom has not cut supplies flowing through the country en route to EU member states.

The European Union relies on Russia for around one third of its gas, roughly half of which flows via Ukraine.

EU governments are concerned, however, and leaders will discuss ways to curb dependence on Russian energy at summit talks in Brussels on Thursday and Friday.

Two previous price rows between Russia and Ukraine in 2006 and 2009 did impact supply to EU nations.

The gas row this time is more complicated due to the deterioration in relations between Moscow and Kiev, although EU leaders also say solving it could help to defuse wider tensions.

After the ouster of pro-Moscow Ukrainian President Viktor Yanukovych in February, Russia annexed Ukraine's Crimea region and has been accused of backing pro-Russian separatists in the east of the country where more than 3,700 people have died.

Reasons to Get a Deal

U.S. and EU economic sanctions on Russia plus a fall in the price of oil have increased incentives for Moscow to resolve the dispute. State-controlled Gazprom earns around $6 billion a month selling gas to the EU.

"Without a doubt, sanction regimes put on Russia by the U.S. and the EU have already eaten into the country's economic health," Vienna-based consultancy JBC energy wrote in a note.

"And also Ukraine, presumably unwilling to again jeopardize gas supplies during winter while military operations are not going as planned either, will at least temporarily be interested in easing the pressure exerted on it by Russia."

The EU's Oettinger has been brokering talks between the two sides since May after President Vladimir Putin called on the EU to intervene.

A summit held in Milan on Friday produced hopes for a breakthrough after Ukraine President Petro Poroshenko met Putin and said they had reached a preliminary agreement on a gas price until March 31.

The interim price would be $385 per 1,000 cubic meters, higher than the average of some $350 that Gazprom charges EU companies but $100 less than Russia had demanded.

Putin, meanwhile, said Ukraine's debt for Russian gas supplies stood at $4.5 billion,

considerably less than the $5.3 billion previously demanded by Gazprom.

Kiev had balked at the previous figure, arguing that the price used to calculate the arrears should be $268.50, which is what it was paying in the first quarter of this year.

Russia's energy ministry said Friday that Ukraine had agreed to make a first debt payment of $1.45 billion by the end of this month and another $1.65 billion by the end of the year.

Ukraine is likely to buy up to 5 billion cubic meters of Russian gas this winter, but state coffers have been drained by the conflict in the east, despite a shaky cease-fire.

Kiev faces a $3.5 billion funding shortfall for this year and next but the International Monetary Fund has said the government should be able to cover most of it with planned debt issues and an expected $900 million in further donor support.

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