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INDEPENDENT NEWS FROM RUSSIA

Ukraine's Naftogaz Says $3.1 Billion Set Aside to Pay For Russian Gas

By The Moscow Times

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Employees carry out scheduled maintenance at Oparivske gas underground storage in Lviv region, Ukraine.

Ukraine's Naftogaz has set aside $3.1 billion in a special escrow account to pay Russian natural gas supplier Gazprom, the chief executive of Ukraine's national oil and gas company said Thursday.

Russia cut off gas flows to Ukraine in mid-June citing unpaid bills, adding to tensions sparked by Russia's annexation of Ukraine's Crimea region.

After months of stalemate, pressure has mounted for a deal to allow gas deliveries for heating as winter approaches. Gazprom has since said the debt now stands near $4.5 billion.

Ukraine has agreed to pay off $3.1 billion towards its gas debt to Gazprom in two tranches this year to help unblock its access to gas over the winter.

The first payment of $1.45 billion is due by the end of this month and the second payment of $1.6 billion is due by the end of the year.

"That money is already there, in a special escrow account. $3.1 billion has already been set aside for paying Gazprom," Naftogaz chief executive Andriy Kobolyev said in an interview on the sidelines of the FT European Gas Summit in London.

When asked how Naftogaz will pay the remaining amount, Kobolyev said there was no such thing as fixed debt.

"We have not yet agreed a (gas) price with the Russian Federation for 2014 — that is why the size of the debt will depend on the price we agree. And that price will depend on the arbitration process in Stockholm," he said.

Naftogaz has lodged a case with the Stockholm arbitration tribunal for a revision of its gas deal with Gazprom, a decision on which is expected towards the end of next year.

Winter Gas

The latest round of gas talks between Moscow and Kiev took place on Tuesday in Brussels with no agreement and more talks are scheduled for Oct. 29.

On Wednesday, Russian Energy Minister Alexander Novak said the two sides had almost reached a deal but had stumbled over the issue of how Ukraine will pay in advance for gas supplies in November and December.

A price of $385 per thousand cubic meters was cited for Russian gas supplies this winter, but Kobolyev said he would not disclose the price they are discussing now.

"There are different prices being discussed," he said.

At the next round of talks next week, the two main issues to be resolved for Naftogaz are whether Gazprom will be willing to sign a binding deal and the schedule of when and how much Naftogaz has to pay.

Ukraine could have a deficit of 4 billion to 5 billion cubic meters of gas this winter, Kobolyev said. This does not include local production, gas in storage or gas coming from Europe.

If Russian gas remains cut off, Naftogaz will look to get all of its gas needs from the EU. If an interim deal with Gazprom is agreed, it plans to purchase an additional 4 bcm to 6 bcm of gas from the Russian supplier, Kobolyev added.

Kobolyev also confirmed that Naftogaz has repaid its $1.7 billion Eurobond in full.

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