

Russia Says No Gas Deal Until EU Guarantees Payment for Ukraine

By [The Moscow Times](#)

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European Energy Commissioner Guenther Oettinger (R) arrives for gas talks between the European Union, Russia and Ukraine at the EU Commission headquarters in Brussels on Oct. 29, 2014.

Ukraine's efforts to unblock deliveries of Russian gas as winter sets in were deadlocked on Thursday as Moscow's negotiators were quoted demanding firmer commitments from the European Union to cover Kiev's prepayments for energy.

EU-hosted talks were adjourned after running late into the night, Energy Minister Alexander Novak and the head of Russian gas firm Gazprom told Russian news agencies. They would resume later in the day if Ukraine and the EU had a firm financing deal in place, Gazprom head Alexei Miller said.

Ukrainian and EU officials were not available for comment.

There has already been agreement on the price Kiev will pay for gas over the winter, the

amount to be supplied and the repayment of some \$3.1 billion in unpaid Ukrainian bills but Moscow, which cut off vital pipelines in June as the conflict with Ukraine and the West deepened, wants more legal assurances that Kiev can pay some \$1.6 billion for new gas up front.

Some critics of Russia question whether its motivation is financial or whether prolonging the wrangling with ex-Soviet Ukraine and its Western allies suits Moscow's diplomatic agenda.

Ukraine is in discussions with existing creditors the EU and the IMF and German Chancellor Angela Merkel, concerned about vital Russian gas supplies to the rest of Europe has spoken of bridging finance for Kiev. But the Russian negotiators said they wanted to see a signed agreement on EU financing for Ukraine.

Novak was quoted by RIA news agency as saying he had been told in the talks that Ukraine was discussing funding for 4 billion cubic meters of gas with the European Commission and the International Monetary Fund but he had seen no guarantee of it.

"This isn't about guarantees, but only statements from the Ukrainians," he said. "We were shown no written guarantees."

He noted that Russia was only offering to open the taps once prepayments were made by Ukraine, whose economy is in crisis and which has a record of payment difficulties. "If there's money, there will be gas," Novak said.

"Everything to do with financial issues, everything to do with guarantees which the European Commission will give Ukraine, these arrangements will be set out in a bilateral protocol," Miller was quoted as saying by TASS news agency.

"If such agreements are not reached, then accordingly, there will be no negotiations and no documents will be signed. If there is an accord between the European Commission and Ukraine, then we can expect to sign all the trilateral documents."

Temperatures Drop

The gas cut-off has had little impact for months. But pressure is mounting for a deal as temperatures start to drop below freezing and European energy commissioner Guenther Oettinger, who has been mediating, prepares to leave office on Friday, making way for a new European Commission.

The two sides came close in September, but last week differences were wide over Kiev's ability to pay.

Some of Russian President Vladimir Putin's many critics in eastern Europe question his interest in concluding an agreement on commercial grounds and see the temperature of Ukrainian homes in the coming months being determined more by Kremlin calculations of its geostrategic interests.

Oettinger, a German, said before talks began on Wednesday that there was a 50-50 chance of a breakthrough. If he cannot broker a solution, it will be down to his Slovak successor, Maros Sefcovic, who takes office on Saturday.

Weekend elections returned a pro-Western parliament in Kiev, potentially stoking tensions with Moscow, although Russia's EU envoy, Vladimir Chizhov, said on Thursday the mood could be more relaxed now the vote had taken place.

"During the last rounds of talks, let's not conceal it, the pre-election situation had its influence on Ukrainian side," Chizhov told RIA. The only unresolved problem, he said, was from where to get the money for winter supplies.

Not Just Money

Ukraine's Naftogaz company has set aside \$3.1 billion in a special escrow account to pay off a chunk of its debt to Gazprom, but Russia is also demanding prepayment for winter supplies before it is willing to turn the taps back on.

Kiev says it is working to raise more money from all possible sources of financing, including the European Union. The European Commission is considering Ukraine's request, made last week, for a further loan of 2 billion euros.

But Kiev also says money alone may not be enough.

"I have an impression that the Russian side doesn't want to agree," Ukrainian Finance Minister Oleksander Shlapak said Tuesday.

Analysts said it could be very hard to come up with enough assurances to satisfy Russia, even if Gazprom, and more widely the Russian treasury, would welcome new revenues as the economy suffers from the effects of Western trade sanctions.

Ukraine at the same time is pushing for written guarantees that any agreement on price will be lasting.

For all sides, there is much at stake.

Russia provides around a third of the European Union's gas, roughly half of which is pumped via Ukraine.

Ukraine in turn relies on Russia for around 50 percent of its own gas and despite storage has a winter shortfall of around 3 billion to 4 billion cubic meters (bcm), depending on the weather.

For Russia, the gas sector contributes approximately a fifth of the national budget.

Sanctions on Russia, which EU officials decided to leave unchanged on Tuesday while conflict in Ukraine continues, are sapping an already weak economy. But Moscow could well be willing to endure much more hardship for political ends.

"Economic factors are generally not given precedence when national security concerns are at stake," Pasquale De Micco, a national expert from the European Parliament's policy department, said in a research paper on Europe's gas supply options.

"What is certain is that a gas war risks harming both parties in the short term and that it would hamper future efforts to re-establish mutually trusting relations."

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