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Ukraine and Russia Sign EU-Brokered Gas Supply Deal

By The Moscow Times

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Russian Energy Minister Alexander Novak (front L) reaches out to shake hands with Ukraine's Energy Minister Yuri Prodan (front R) after gas talks between the European Union, Russia and Ukraine at the European Commission headquarters in Brussels on Thursday.

Ukraine, Russia and the European Union signed a deal Thursday that will see Moscow resume vital supplies of gas to its ex-Soviet neighbor over the winter in return for payments funded in part by Kiev's Western creditors.

After several failed rounds of talks in recent weeks as conflict rumbles on despite a ceasefire with pro-Russian rebels in eastern Ukraine, the accord also eases concerns that a new "gas war" could disrupt winter supplies if energy to EU states, notably through pipelines shut down across Ukraine since June.

With overnight temperatures already nudging below freezing in Ukraine, European Commission President Jose Manuel Barroso hailed an accord clinched in Brussels barely 24

hours before he and the rest of his team make way for a new EU executive.

"There is now no reason for people in Europe to stay cold this winter," he told a news conference after witnessing the signing of documents by the Russian and Ukrainian energy ministers and EU energy commissioner Guenther Oettinger.

Oettinger said he saw in the agreement a "first glimmer" of detente between Moscow and Kiev in a conflict that has plunged relations into a chill not seen since the Cold War.

Worth $4.6 billion in total, the package calls for Ukraine to pay $3.1 billion in two tranches by the end of the year to cover debts for previous supplies from Russia's Gazprom , and Kiev will have $1.5 billion, some from existing accords with the EU and IMF, to pay for about 4 billion cubic meters of new gas until March, for which Russia is insisting on cash up front.

"Unprecedented levels of EU aid will be disbursed in a timely manner, and the International Monetary Fund has reassured Ukraine that it can use all financial means at its disposal to pay for gas," the European Commission said in a statement.

"Further work with the international financial institutions on financial assistance to Ukraine, also in relation to gas supplies, will still continue. But all three sides are reassured that Ukraine will have the necessary financial means."

Russian Energy Minister Alexander Novak had left Brussels early on Thursday, disappointing hopes of a deal then, saying he wanted firmer commitments from the EU on Ukraine's finances.

Asked at the joint news conference where Ukrain would get the money to buy new gas for its 45 million people, Oettinger noted that Kiev had already set the money aside to pay the agreed debt to Gazprom and that discussions with the Washington-based International Monetary Fund had clarified that Ukraine would be able to draw down more cash for pre-payments.

Ukraine's gas company Naftogaz also had revenues of its own that it would use to pay for some of the new Russian supplies.

Oettinger said the new, pro-Western Ukrainian government being formed after a parliamentary election last Sunday should work quickly with the incoming European Commission and the IMF to implement reforms that would enable it to secure further international financing, not just this winter but after next March.

Ukrainian Energy Minister Yuri Prodan noted that Kiev hoped for a favorable outcome from an arbitration court in Stockholm in a dispute with Gazprom about prices and the size of bills run up before pro-EU street protests overthrew the pro-Moscow president in February, triggering Russia's annexation of Crimea.

In any case, he said, Ukraine had the means to buy gas for the rest of this year at $378 per 1,000 cubic meters, and at $365 in the first quarter of next year. Novak noted that these prices represented a discount of $100 according to a formula contained in the gas supply agreement dating back several years.

While President Vladimir Putin's administration, which cut off supplies in June as relations

worsened, was keen for the European Union to commit itself to financing Ukraine, officials from Kiev also underlined their view that having the EU as a co-signatory would "guarantee" Moscow did not renege.

Both Novak and Prodan highlighted the role that pipelines across Ukraine play in delivering gas from Russia's Siberian and Arctic fields to the major economies of Western Europe. Novak said Russia would remain a reliable energy supplier to Europe.

Oettinger said: "We can say to the citizens of Europe that we can guarantee security of supply over the winter."

While the gains for Ukraine are evident — without Russian gas many of its people would face death over the winter — Russia also gains from a deal that brings in cash at a time when its economy is suffering from a slide in world oil prices and from Western trade sanctions imposed over the Ukraine crisis.

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