

Gazprom Sends Kiev \$7Bln Bill

By [The Moscow Times](#)

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KIEV/DAVOS — Ukraine took its first major step away from dependency on Russian gas imports on Thursday when it signed a \$10 billion shale gas deal with Royal Dutch Shell.

The 50-year production sharing agreement, signed on the sidelines of the World Economic Forum in Davos, marks the biggest contract yet to tap shale gas in Europe and the largest foreign investment in the former Soviet republic.

President Viktor Yanukovich presided over the signing between Shell's chief executive Peter Voser and new Fuel Minister Eduard Stavitsky. "We have witnessed a great event today. I believe we have become almost relatives," Yanukovich told Voser.

Ukraine chose Shell last May as a partner to develop the Yuzivska field in the east of the country and regional councils there approved the production-sharing deal last week, removing the last hurdle to signature.

Ukraine is said to have Europe's third-largest shale gas reserves at 1.2 trillion cubic meters,

according to the U.S. Energy Information Administration.

The Yuzivska field could be producing 20 billion cubic meters of gas in 2018, Stavitsky said on Thursday.

"According to Shell's optimistic scenario, about 20 billion cubic meters could be extracted annually; according to the pessimistic one, at the very least 7-8 billion," Stavitsky, quoted by Interfax, said in Davos.

If the top forecast were fulfilled, "this will completely solve the problem of the (gas) shortfall in Ukraine," he said, referring to the huge amounts of gas Ukraine has to import from Russia to meet its domestic needs. Ukraine, he said, "might even go into surplus."

Ukrainian officials said earlier this month that Shell saw investment under the deal of at least \$10 billion "under the most likely scenario" and possibly as much as \$50 billion.

Shell, which has projects worth many billions of dollars in Russia, did not comment on the figures and was less outspoken about Ukraine's dependence on Russian gas.

"We are very pleased with this big step," Voser said at the signing ceremony. Shell will operate the projects and hold a 50 percent stake in them. Rights and responsibilities of investors will be specified in a different agreement at a later stage.

Much could depend on the outcome of a second shale gas project in Ukraine at Olesska, where the government has signaled that it expects a tougher fight to secure local approval because of environmental concerns.

The government chose Chevron to develop the Olesska field in the western Lviv and Ivano-Frankivsk regions bordering the EU. Ukraine has also chosen an ExxonMobil-led consortium to explore for offshore gas in the Black Sea and is seeking foreign partners to help it build a liquefied natural gas terminal.

Under the 10-year deal signed in 2009 by the preceding government, Ukraine currently pays about \$430 per 1,000 cubic meters for Russian gas.

The present Kiev government says the price is exorbitant but has so far failed to persuade Russia to bring it down. At the same time, Moscow has increasingly used the issue to step up pressure on Ukraine to join a post-Soviet Customs Union and step back from moves towards the European mainstream.

"Before Russia did not take the Ukrainian position seriously when it spoke of finding alternative gas supplies. This agreement on shale gas will strengthen Kiev's position at negotiations with Russia over a (new) gas contract," said independent energy analyst Valentyn Zemlyansky.

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