

Ukraine Getting Upper Hand Over Russia in Gas Diplomacy

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June 15, 2014



Ukrainian Energy Minister Yurii Prodan, front, leaves after talks with members of the Russian delegation and European Union Energy Commissioner Guenther Oettinger in Kiev on Saturday.

While the threat of shutting off gas deliveries remains Russia's main bargaining chip in its price dispute with Ukraine, Kiev continues to score political points by digging its heels in at the negotiating table.

Ukraine and Russia once again failed to agree on a price for future gas deliveries during talks in Kiev that lasted until midnight on Saturday, casting doubts over the sides' ability to get the job done at a sixth round of negotiations on Sunday.

Russia has said it will switch Ukraine to prepayment for gas supplies starting from Monday morning if they cannot cut a deal and if Kiev does not pay \$1.9 billion in gas debts to Russian energy giant Gazprom before the deadline. However, it remains to be seen whether Moscow will stick to its guns or move the date back, which has already happened several times over the

course of the talks.

The dispute erupted in April when Moscow raised the gas price for Kiev to \$485 per 1,000 cubic meters — well above last year's average price for European customers of \$370 — in response to the ousting of former Ukrainian President Viktor Yanukovich. Yet a combination of Ukraine's refusal to pay and the protracted nature of the talks has managed to bring the price down.

Ukraine initially said it wanted to pay just \$268 per 1,000 cubic meters and abolish the take-or-pay agreement obliging it to pay for a certain amount of gas whether it is used or not, a position supported by Ukrainian Prime Minister Arseniy Yatsenyuk.

Gazprom CEO Alexei Miller on Thursday responded by labeling Ukraine's demands “blatant blackmail, absurd, ultimatum-like and unconstructive.”

European Union Energy Commissioner Guenther Oettinger, who has been mediating the negotiations, earlier said the European average would be a fair price for Ukraine to pay. When Russia backed the proposal and offered to scrap the export duty, which would lower the price by \$100 per 1,000 cubic meters, it appeared that an end to the dispute was imminent.

The concession failed to satisfy Ukraine, however.

“Russia has offered us a gas price cut of \$100,” Yatsenyuk said in response to the offer, Reuters reported. “I want to say that we know these Russian traps. The discount is set by the Russian government and cancelled by the Russian government.”

Andrei Kobolev, head of Ukrainian state gas company Naftogaz, returned to the negotiating table on Friday with a new price that would possibly suit Kiev. He said Kiev was ready to settle its debts if the country was allowed to pay \$326 per 1,000 cubic meters for an interim period of 18 months, during which time a long-term price could be agreed, the UNIAN news agency reported.

Gazprom did not respond to the offer on Saturday but, according to UNIAN, Alexei Miller “left the talks hastily and without saying a word.”

Debts and Valves

Russia has made repeated attempts to force Ukraine to paying off at least part of its gas debt, threatening to freeze gas supplies in a move that could eventually disrupt deliveries to Europe — half of the gas Gazprom delivers to the EU arrives via Ukraine.

President Vladimir Putin warned EU countries in May that Russia would be forced to switch Ukraine to prepayment for gas starting from June 1.

Earlier this year the International Monetary Fund loaned Ukraine \$3.2 billion, which Russia hoped would go toward paying off gas debts for the first quarter of 2014 that it said amounted to \$2.2 billion. However, only \$786 million has been transferred to Gazprom so far. On that occasion the payment arrived just hours before the first planned prepayment deadline was set to pass.

The payment was enough to convince Russia to postpone the deadline until June 9 and then to June 10. Following a new round of negotiations that started last week, the date was moved again, this time to June 16.

“Ukraine must fully pay down its debt for November and December 2013 of \$1.4 billion and demonstrate progress on paying its debt for April and May — \$500 million,” Miller said Thursday.

This time he warned that Russia would not go back on the decision to switch Ukraine to prepayment if it does not pay by 10 a.m. on Monday.

Ukraine has acknowledged this but said it would not pay until the sides reach an overall agreement on the the future gas delivery price.

Ukraine's energy minister on Saturday moved to dismiss widespread fears that the dispute could damage the country, saying the country could cope even if Russian does freeze deliveries.

“Now our gas consumption is such that we fully supply ourselves with our own production and pump gas into storage facilities,” Minister Yuriy Prodan was quoted as saying by ITAR-Tass.

According to Gas Storage Europe, an organization that monitors the European gas storage system, Ukraine's storage facilities were 42 percent full as of Saturday. In recent months, they have soaked up almost 13.5 billion cubic meters of gas. Gazprom earlier estimated that Ukraine needed 18.5 billion cubic meters of gas to last it through the winter.

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Original url:

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