

Ukraine-Russia Gas Talks: All's Well That Ends Well?



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Control Risks

■ Current contract

- January 2009 and reduced by 30% (or \$100) in April 2010.
- Valid until 2019
- Price of about \$416 per tcm in 2012 (EU is \$415; FSU is \$320).

Russia's conditions for a discount

- Ukraine to join Russian-led regional integration projects.
 - Ukraine response: unilaterally annulment of contract and international arbitration.
- Letting Gazprom co-manage or co-own Ukraine's gas transportation system (GTS)?

Weak bargaining position

- Two “gas wars”, opaque oligarchic interests, and a chill in relations with the EU
- Inability to pay regularly: largest dispute in history in 2009.

Control Risks

■ “Gas wars” -> Russia’s pipeline systems to avoid transit

Nord Stream

- Two strings, each annual capacity of 27.5 bcm
- Gazprom -- 51%
- E.ON and BASF/Wintershall -- 15.5% each; Gasunie and GDF Suez -- 9% each

South Stream

- Transit through Serbia
- building to begin by the end of this year (Turkey boost)
- Two strings - combined capacity of 31 bcm, potential to 63 bcm
- Gazprom -- 50%; ENI -- 20%; EDF and BASF Wintershall -- 15% each
- Expected start in late 2015 at the earliest

Total = 85 bcm Nord and South Stream. Ukraine 30-50 bcm of transit.

Control Risks



Control Risks

■ Dependency

- Gazprom = 80% of Ukraine's imports (half is CA gas)
- Ukraine to take or pay > 33 bcm pa (needs to import 34-40 bcm)

Government wishful thinking?

- With discount, it hopes to get IMF tranche without hiking prices
- Hopes to cut gas imports from Russia:
 - to diversify its import sources
 - boost non-gas energy carriers in the energy mix
- Not LNG terminal
- So far failed no gas from Azerbaijan
- Power generation and key industries – gas hungry

Upgrading of GTS

- 22,000 km of Soviet-era pipelines
- Capacity dropped from 180 bcm to 101 bcm pa.
- At \$200-300 per year = two-three decades
- Requires about \$6,5bn by 2018

Control Risks

■ Oligarchic interests

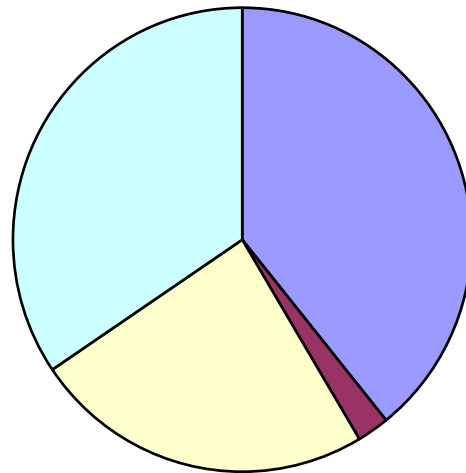
- Akhmetov (Kievenergo etc.)
- Firtash – new privatisations coming up
- For cheap Russian gas imports
- Against Gazprom role in GTS

Has Ukraine missed the Russian train?

- Co-ownership vs co-management of GTS
- Gazprom - growing challenges in Europe...
- *Needs to get it right in Ukraine:*
 - Downstream opportunities
 - Security of transit (still 30-40% of Russian exports to E.)
 - Storage

Gazprom may not be kept at bay for much longer

Ukraine's domestic gas consumption - 2011



- Residential consumers
- State organisations (schools, hospitals, government offices)
- Heating companies
- Industrial consumers

Downstream opportunities

- Industry pays \$560 per tcm
- Residential consumers \$9.1-\$36.9
- Heating companies \$163.6

■ Endgame

- Better political relations than at time of “gas wars”
- Ukraine needs to commit Russia to its transit route
- Selling some minority stake to Gazprom in unbundled Naftogaz
- Unbundling may take years - Gazprom’s role may later turn out to be less than certain.

EU Energy security

- South Eastern Europe – still risks of disruptions
- Ukraine’s difficulty in paying for Russian imports

Solution?

- Making Ukraine’s gas sector more transparent.
- March 2009 EU-Ukraine Declaration / Energy Community Treaty
- Was the gas law of July 2010 *aquis*-consistent?
- Implementation is the key problem.



Thank you