

# Ukraine-Russia gas dispute disrupts European supply

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Gas exports from Russia to Europe via Ukraine have come to a complete halt, according to Naftogaz. The Ukrainian state gas supply corporation said yesterday that Russia's Gazprom has halted all supplies. Gazprom has responded by accusing Ukraine of closing off supplies.

According to the BBC, Romania, the Czech Republic, Slovakia, Bosnia-Herzegovina, Bulgaria, Croatia, Greece, Hungary, Macedonia, Serbia, and Austria have reported a total halt in Russian supplies from Ukraine.

Gazprom first cut the gas supply to Ukraine January 1, insisting that over 300 million cubic metres of gas would continue to flow through the country for the European market. The Ukrainian gas pipeline network carries about one-fifth of the European Union's gas needs, as well as gas for the Balkans and Turkey.

On January 5, Russian Prime Minister Vladimir Putin said supplies to Europe via Ukraine would fall by about one-sixth, but stated that Gazprom would boost supplies to the rest of Europe through alternative routes. Putin claimed that Gazprom had been forced to cut gas supplies through Ukraine because Naftogaz was siphoning off gas intended for export. Gazprom CEO Alexei Miller said that deliveries to Europe through Ukraine could be cut "by the amount stolen by Ukraine, which is 65.3 million cubic metres of gas."

Kiev denies siphoning off gas, claiming technical problems for disrupting the flow. Naftogaz spokesperson Valentin Zemlyansky said his company was not stealing but was "removing gas for technical purposes, in order to ensure the transit of Russian exports."

Many countries are being forced to use limited national reserves or switch to alternative fuels amidst a cold snap that has increased demand. Bulgaria is

especially vulnerable to a cut-off of supplies through Ukraine as it has no alternative gas sources. Ukraine and the other countries affected are enduring an especially cold winter, with temperatures in the region falling to as low as -15C.

The European Union issued a strong attack on both Ukraine and Russia January 5, urging both sides to return to negotiations and not to permit their dispute to affect neighbouring economies. The Czech government, current holders of the EU presidency, issued a statement addressed to Moscow and Kiev:

"Without prior warning and in clear contradiction with the reassurances given by the highest Russian and Ukrainian authorities to the European Union, gas supplies to some EU member States have been substantially cut. This situation is completely unacceptable. The Czech EU Presidency and the European Commission demand that gas supplies be restored immediately to the EU and that the two parties (Russia and Ukraine) resume negotiations at once with a view to a definitive settlement of their bilateral commercial dispute."

European Commission President Jose Manuel Barroso accused the two countries of taking the EU's gas supply "hostage" and has offered to send monitors to the Russian-Ukrainian border, and at Ukrainian exit points, to determine where the shortfalls originated. Both countries have formally endorsed such an initiative.

A Ukrainian delegation has visited the Czech capital Prague, as well as Brussels, home of the EU Commission, in order to win support. Russian Deputy Foreign Minister Alexander Grushko has called for an emergency session of the European Parliament to give Russia the opportunity to present its case to the EU.

## Pipeline politics

As well as the pursuit of large fines demanded by Gazprom from Ukraine for late payment, now amounting to over US\$600 million, the Russian elite are using the energy dispute for political ends. Any destabilisation of the regime of Ukrainian President Viktor Yushchenko will certainly be welcomed by many in the Kremlin, who are deeply opposed to his commitment to joining the US-led military alliance NATO. There are also suggestions of a deal between Moscow and Ukraine's prime minister, Yulia Tymoshenko.

However, for the oligarchs who run Gazprom and dominate the Russian government, there are broader and more long-term considerations to destabilizing the gas supply through Ukraine.

Deputy Gazprom Chairman Alexander Medvedev insisted that Russia no longer considered Ukraine to be a reliable partner in the transportation of gas to Europe, claiming it was "necessary to develop, as soon as possible, alternative transit routes."

Russia is developing the Nord Stream gas pipeline to run under the Baltic Sea from Russia to Germany and also the South Stream link that will pass under the Black Sea to Italy via the Balkan Peninsula. Greatly reducing Moscow's reliance on Kiev when completed, the alternative routes will enable Gazprom to cut off gas to Ukraine without disrupting the lucrative and economically vital supplies to the EU.

These routes have been attacked by Ukraine and other transit countries within the EU, as well as many industry analysts, as expensive and unnecessary. They claim the existing routes across Eastern Europe are entirely adequate to meet the energy needs of Western Europe, but that Russia is developing the alternative routes in order to divide the EU states based on their energy interests.

The EU is attempting to develop increased gas supplies from Algeria and Norway. But it is co-operating with Russian plans for the Nord Stream and South Stream routes. Germany, in particular, has worked closely with Russia to develop the pipeline under the Baltic Sea, bypassing Poland and the Baltic countries, which have opposed the route for fear it will eliminate their transit fees and expose them to a

Russian gas cut-off.

Nord Stream is a joint project between Gazprom and German firms BASE and Eon and Dutch firm Gasunie. Due to be completed in 2012, the route will go from Vyborg north of St. Petersburg to Greifswald in Germany. In November, the German government commented that the project was "indispensable in order to guarantee the transport of increasing amounts of gas to Europe in the future."

South Stream is a joint project with Italian energy company ENI. One branch will go through Bulgaria to Greece before terminating in Italy. The northern branch will turn from Bulgaria to Serbia, Hungary and Austria. The plan involves a large gas storage facility in Serbia.

The South Stream routes are widely seen as Gazprom's response to the planned Nabucco pipeline. Sponsored by the EU and supported by the US, the Nabucco route will transport natural gas, originating in Central Asia, from Erzurum in Turkey to the major Baumgarten an der March gas hub in Austria. Once open, the route would allow large quantities of gas to bypass Russia en route to Europe. Gazprom's South Stream project is expected to cost twice as much as the Nabucco pipeline.



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