

Russia's Gazprom offers Ukraine short-term gas deal

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Russia's state-owned energy company Gazprom has officially offered Ukraine's Naftogaz a one-year deal to continue the transit of Russian gas through Ukraine on its way to Europe.

The offer signals a potential weakening of the US-backed Ukrainian government's bargaining position, as President Volodymyr Zelensky readies to enter negotiations with French, German and Russian officials under the so-called "Normandy Format" on December 9 in Paris. The talks are to discuss a possible peace deal to end a five-year long civil war in eastern Ukraine that has claimed the lives of 13,000 Ukrainians, displaced 1.4 million and left 3.5 million in need of humanitarian assistance.

The current agreement between Naftogaz and Gazprom is set to expire at the end of the year, and without a new deal in place both Ukraine and Europe could experience significant disruptions to gas supplies as cold winter temperatures set in.

Gazprom has made the deal conditional on Naftogaz dropping all legal claims against the Russian company, which currently total \$22 billion. Last February a Stockholm court awarded Naftogaz \$2.56 billion in two cases involving gas transit and supply, which Gazprom subsequently appealed.

Earlier in October, Ukrainian Prime Minister Oleksiy Honcharuk asserted Kiev's intention to avoid signing any short-term deal, stating: "We aim to obtain a long-term contract, because the continuation of the contract for one year... does not suit us." Honcharuk also stated that Ukraine planned to store 20 billion cubic meters (Bcm) by the start of heating season in the case of a gas shut-off.

With Russia's offer on the table, the Ukrainian oligarchy must now choose to either end its legal disputes with Gazprom and move forward with the limited one-year deal, or risk throwing Europe into an energy crisis that could erode Kiev's support in Paris and Berlin.

In seeking a long-term contract Kiev had hoped to avoid being cut off from Europe as a major gas-transit country while Russia moves towards completing its Nord Stream 2

pipeline, which is worth some \$11 billion, by the spring of 2020. The pipeline will travel 765 miles under the Baltic Sea directly from St. Petersburg to Germany. The European Union as a whole already receives over 50 percent of its gas from Russia. Furthermore, European gas production is expected to fall by 50 percent over the next 20 years, while demand continues at the current pace.

In addition to the Nord Stream 2 pipeline, Russia is also planning to complete a second new gas pipeline, known as Turkstream, through the Black Sea and Turkey and then potentially north via Bulgaria, Hungary, Romania and Slovakia. Turkstream's completion and final route is unclear, but both pipelines were constructed to eliminate Ukraine's status as a major gas transporter to Europe and ensure the status of Russia as Europe's preeminent energy supplier for decades to come.

According to S+P Global, in the first 10 months of 2019 73.3 Bcm of Russian gas passed through Ukraine to Europe, or around 45 percent of total Russian sales in Europe and Turkey. Ukraine has the potential to transit 140 Bcm/year, but volumes have been lowered since the coup in 2014 that brought a right-wing, nationalist, United States-backed government to power in Kiev.

Any further reduction in gas flowing through the country to Europe would both materially and politically weaken the country. The Ukrainian state relies on gas-transit fees to fund its crippled economy and uses its status as a major transporter to gain political support from Germany and France in its confrontation with Moscow.

Naftogaz earns up to \$3 billion per year in transit fees on Russian gas, or roughly 3 percent of the country's GDP, and is a valuable source of much needed foreign exchange.

While the European Union is divided over the project, Ukraine's major imperialist backers in Europe are eager to see the pipeline completed. German Chancellor Angela Merkel has conspicuously protected the Nord Stream 2 pipeline from EU sanctions over Russia's annexation of Crimea in 2014.

France has also dramatically increased its gas imports from

Russia, with Gazprom gas exports to the country increasing by 58 percent between 2013 and 2018. The Nord Stream 2 project involves two major German energy companies, Wintershall and Uniper, the French company Engie, as well as the Austrian OMV and British-Dutch Shell.

The United States, meanwhile, has backed Ukraine in its rabid opposition to the Nord Stream 2 pipeline against Moscow. United States President Donald Trump claimed in June of 2019 that the completion of Nord Stream 2 would make Germany a “hostage” of Russia, and the United States has threatened sanctions against any companies involved in the project.

Apart from geostrategic military considerations in its confrontation with Moscow, the United States is also a major supplier of liquefied natural gas (LNG) to Europe and hopes to increase exports further as Europe’s gas supplies shrink.

The website of Radio Free Europe/Radio Liberty (RFE/RL), which is known for its close ties to the CIA, warned in a recent article that although sanctions against Nord Stream 2 are backed by the overwhelming majority of Democrats and Republicans, internal conflict in Washington over the impeachment of Trump centered on US foreign policy in relation to Ukraine could facilitate the realization of the Nord Stream 2 pipeline.

In recent months, Ukrainian lawmakers have aggressively lobbied the US Congress to impose sanctions on Nord Stream 2. Now, RFE/RL wrote, “...U.S. lawmakers and Ukrainian officials are worried that Congress, with much of its attention focused on impeachment inquiry, will not come to an agreement on sanctions legislation before the completion of the pipeline project.”

John Herbst, a former US ambassador to Ukraine who now heads the Eurasia division of the aggressively anti-Russian Atlantic Council think tank, said it would be a “shame” if delays in legislation would enable the pipeline project to go ahead as planned.

The gas issue in Ukraine has also entered into the warfare within the American ruling class on a different level. Trump’s pressure on Zelensky first began over the appointment of Hunter Biden, the son of then-Vice President Joe Biden, to the board of Burisma Holdings. Burisma Holdings is Ukraine’s largest natural gas producer and holds licenses to produce gas in regions of eastern Ukraine.

This week it was reported that federal prosecutors are seeking to question Rudy Giuliani over his contacts with both Naftogaz and Global Energy Producers, which sought to sell liquefied natural gas to Naftogaz in place of Russian gas. It is alleged that Giuliani pressured Naftogaz to replace its chief executive officer (CEO), Andriy Kobolyev, in order to benefit Giuliani’s associates at Global Energy Producers,

Lev Parnas and Igor Fruman. Fruman and Parnas have already been arrested on campaign finance charges of funneling foreign money to American political candidates.

While Ukraine is dependent on Russia for gas, it is estimated that the country has the third highest amount of gas shale deposits in Europe, most of which are located either within or close to separatist-controlled regions in eastern Ukraine. Ukraine’s significant coal reserves and mines are likewise situated almost entirely within the self-proclaimed Donetsk People’s Republic and Lugansk People’s Republic in the east. Any potential further development of Ukraine’s untapped energy reserves will require some sort of solution to the current stalemate in eastern Ukraine, either through negotiations, as favored by Paris and Berlin, or through war, as favored by Washington.

The Ukrainian government has also moved forward with steps to “unbundle” Naftogaz from the gas transit industry in order to comply with European energy regulations and create a new state-owned entity that would control gas transit within the country. The move, put into law last week by Zelensky, was required by both the IMF and the European Commission for Ukraine to continue receive IMF funds and remain part of the European energy market.

While Ukrainian officials--including Prime Minister Honcharuk--have claimed the resulting offshoot of Naftogaz will remain majority state-owned, CEO Kobolyev revealed in an interview with a Polish radio station in January of last year that both European and United States companies were interested in buying shares in any newly created gas transit company.

Both Kobolyev’s comments and the intervention of corrupt American bourgeois representatives from both major political parties into Ukraine’s gas politics demonstrates that there is a high-stakes competition taking place between the United States and the European imperialist powers over the control of Ukraine’s energy sector.



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