

Can Russia-EU-Ukraine Negotiations on Gas Be Saved?

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The trilateral negotiations on supplies of Russian gas to Europe via Ukraine, scheduled for September 6, 2014, have been postponed due to irreconcilable differences between the participants and the political deadlock that has arisen in the process of settling the Ukrainian crisis. As the winter heating season approaches, the situation is beginning to look like a disaster.

***Yuri Borovsky**, Associate Professor, Department of International Relations and Foreign Policy of Russia at MGIMO University of the Russian Ministry of Foreign Affairs, comments on the situation.*

What is the current state of energy contacts between Russia, Ukraine and the European Union?

Energy contacts between Russia, Ukraine and the European Union are in crisis and are being conducted on an ad hoc basis. Everything that has been achieved by Moscow and Brussels since 2000 as part of the Energy Dialogue has now essentially been frozen. The previous regular cooperation between the Ministry of Energy of the Russian Federation and the Ministry of Energy and Coal Industry of Ukraine has ceased.

How great is the damage caused by the halting of Russian gas supplies?

The damage caused by the halting of Russian gas supplies will be significant for all sides. Around 70 billion cubic metres of gas per year is currently transported to countries in Western and Eastern Europe via Ukraine. In the short term, European countries will not be able to find the same amount of gas on the international market, and this will have an extremely negative effect on thousands of households, as well as on industry. Without Russian gas, Ukraine will not be able to make up its gas shortfall, which amounted to 26 billion cubic metres last year. The gas consumption situation in Ukraine has undoubtedly changed in the context of war, but in any case the country does not have enough gas to support a normal level of heating and industrial production. Neither should we forget the substantial duties that Ukraine receives from the transit of Russian gas through its territory. As for Russia, the economic damage sustained on an annual basis (not including the loss of the Ukrainian market) could amount to 28 billion dollars if calculated on the basis of the average price paid by European customers for Russian gas (something like 400 dollars per thousand cubic metres). This will obviously have an extremely unhealthy effect on the Russian economy.

What results can we expect from the forthcoming negotiations?

Winter is approaching, and European consumers are very concerned by the lack of agreement between the Russian Federation and Ukraine. According to expert assessments, Ukraine has enough gas reserves to last until January 2015 at the most. If it doesn't reach a settlement in its relationship with the Russian Federation, including paying off its debt, Ukraine is very likely to start taking gas out of the transit pipeline without authorization, or to put it bluntly, it will start stealing it. There will be a repeat of the situation we had in 2006 and 2009. Brussels and other European capitals are well aware of this and will put pressure on Kiev in every way they can. It is common knowledge that Russia is willing to compromise, offering Ukraine a discount of 100 dollars per thousand cubic metres. Thus a lot, if not everything, will depend on Kiev. Recently, however, Ukrainian policy in many areas has been completely unpredictable, and sometimes simply opposed to logic.

What are the interests of the sides involved in the negotiations?

The European Union will seek any agreement it can between Russia and Ukraine in order to lift the threat of Moscow halting gas supplies via Ukrainian territory in the near future. Russia, which has not yet brought the South Stream gas pipeline into operation, also has an interest in maintaining gas exports to Europe at their previous level and is therefore ready to make some substantial compromises. The weak link in the negotiations is Ukraine, which in light of its disastrous economic situation might go for broke and put forward some unacceptable conditions for Russia with regard to both paying off its existing debts and tariffs on gas transit and setting a new price for Russian gas for Ukrainian consumers.

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