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Gas: old disputes and fresh thaw?

Moscow and Kiev envoys met on 17th July in Berlin for EU-backed talks on future Russian gas shipments through Ukraine, and in a bid to minimise disputes when the current contract expires next year, with the presence of the Russian Energy Minister Alexander Novak, Ukrainian Foreign Minister Pavlo Klimkin and the European Commission vice president for energy Maros Šefčovič, as well as executives from Gazprom and its Ukrainian counterpart Naftogaz.

Ukraine fears to be completely excluded in terms of energy flows, loss of royalties and politically by the planned Nord Stream 2 pipeline that will again bypass Ukraine and Poland. Gazprom has already considerably reduced the volume of gas deliveries, since Moscow and Kyiv are in dispute over the annexation of Crimea and the simmering conflict in Donbass.

Ukraine was a key route for carrying Russian gas to Europe supplying around a third of gas needs and this position is seen by Kiev as a lever for independence vis-à-vis Moscow [Reuters Staff, *Russia and Ukraine to hold further gas transit talks*, Reuters, 17/07/2018].

The talks have been complicated by a lengthy legal dispute between Russian and Ukraine's energy companies, resulting in court rulings in February that both must compensate each other. Naftogaz emerged the net winner, however, gaining a \$2,56 billion compensation from Gazprom. The German Economy Minister Peter Altmaier, said he was optimistic that the two sides would eventually agree on a way of continuing gas transit.

Also the Turkish Stream pipeline, set for completion by late 2019, threatens to further reduce the traditional role of Ukraine as a major gateway into Europe for Russian gas. Gas transit via Ukraine will continue to be necessary in substantial volumes throughout the year until Nord Stream 2 and Turkish Stream are launched. But after that, the role of Ukraine would depend on an agreement reached with the European Commission or the demands of clients.

Supplies averaged 513 million cubic meters (18 billion cubic feet) a day in the first two weeks of July, up more than 5 percent from a year earlier. Gazprom, which supplies more than a third of Europe's gas, plans to beat last year's record supplies to the region and expand its market share in years to come as EU domestic output falls. European demand for gas has been rising since 2015, largely because of a drop in production in the Netherlands [*Russia and Ukraine in EU-backed talks to avoid fresh 'gas wars'*, Euroactiv, 17/07/2018].

The pipeline will follow the track of the existing Nord Stream 1 and will double the amount of Russian gas arriving in the European Union's most powerful economy. Germany has long insisted this is a purely "commercial" project and in March lifted the final obstacles to its construction, also if Angela Merkel insisted that Ukraine should continue to play a key role in the transit of gas to Europe.

The project has also been criticized by US President Donald Trump. The US has an interest in selling shipped liquefied natural gas (LNG) to Europe, but for the moment this is much less economically viable than Russian gas. "So we will be selling LNG and competing with the pipeline. I think we'll compete successfully, although there is a little advantage location-wise" Trump said after meeting with Vladimir Putin in Helsinki. Donald Trump has weighed in on the dispute, charging the pipeline would increasingly make Germany a "captive of Russia" [*Russia and Ukraine Start EU-Backed Talks to Avoid New 'Gas Wars'*, Voice Of America, 17/07/2018].

That said while at NATO level there is a cohesive position expressed officially in the last Brussels Summit, at national level gas can cause additional frictions between the USA and the EU on the one hand and among EU members states, namely major ones versus Eastern European ones. Unfortunately these disputes have become common during the entire post-Soviet course of relations between Ukraine and Russia and this last Russian-Ukrainian meeting could help reversing the trend if both sides arrive at a reasonable compromise.

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